

---

# **Creating a procurement strategy for an importing company**



Master's thesis

Degree programme in Business Management and Entrepreneurship

Visamäki, autumn 2013

Mikael Saarnisto



---

## ABSTRACT

The purpose of the thesis was to find out what the customers experiences and future intentions were in their procurement management. The client of the thesis, an importing and Finnish owned company called SKS Automaatio Oy was interested in investigating and developing the procurement strategy and supplier relations. The initial idea was to create a procurement strategy for SKS Automaatio Oy to help find suitable products for the market and improve the reliability of deliveries. The secondary idea was to improve the supplier relations of SKS Automaatio Oy with a supplier performance management model.

The needed information for the research was firstly gathered by investigating the current market situation and the operating environment from existing literature, articles, research reports and statistics. Based on the information gathered, a customer survey was conducted to gain more information of the attitudes on competitive cost country components and future procurement strategies of the customers. The quantitative survey was executed online with Digium Enterprise web survey to reach as many respondents as possible in a short period of time.

The research results indicate that the main qualities that the companies in the Finnish machine building industry appreciate are quality products, reliable deliveries and technical knowledge. The information and results gathered with this research will help SKS Automaatio Oy to take the next step and develop the procurement strategy and improve customer satisfaction. With the supplier performance model, the relations and operations between SKS Automaatio Oy and their supplier processes will be developed as faster and better service for the end-customer.

### Keywords

Procurement strategy, supplier performance management, machine building industry, strategic management tools

### Pages

76



---

## TIIVISTELMÄ

Opinnäytetyön tarkoitus oli selvittää asiakkaiden kokemuksia ja tulevaisuuden suunnitelmia heidän hankintamenetelmissä. Opinnäytetyön asiakas, suomalainen maahantuoja SKS Automaatio Oy, oli kiinnostunut tutkimaan ja kehittämään hankinta strategiaansa sekä toimittajasuhteitansa. Alkuperäinen idea oli kehittää SKS Automaatio Oy:lle hankinta strategia auttamaan löytää sopivia tuotteita markkinoille sekä parantamaan toimitusten luotettavuutta. Toisena ajatuksena oli parantaa toimittajasuhteita kehittämällä toimittajien suorituskyvyn seurantamalli.

Tutkimukseen tarvittavan tiedon saamiseksi aloitettiin tutkimalla nykyinen markkinatilanne ja toimintaympäristö kirjallisuutta, artikkeleita, tutkimusraportteja sekä statistiikkaa hyödyksi käyttäen. Kerätyn tiedon perusteella tehtiin asiakaskysely jonka tarkoitus oli kerätä lisää tietoa kokemuksista kilpailukykyisten maiden hankinnoista sekä asiakkaiden tulevaisuuden hankinta strategioita. Kvantitatiivinen kysely toteutettiin Digium Enterprisesin verkkokyselyllä tavoittaakseen mahdollisimman monta vastaajaa lyhyessä ajassa.

Tutkimustulokset osoittivat, että Suomen koneenrakennusteollisuuden yritykset arvostavat eniten toimittajissaan laatu- tuotteita, luotettavat toimitukset sekä teknistä osaamista. Näitä kerättyjä tietoja ja tuloksia SKS Automaatio Oy voi käyttää hyväkseen kehittäessään hankintastrategiaansa sekä parantaessa asiakastytyväisyyttä. Toimittajien seurantamallilla SKS Automaatio Oy voi kehittää suhteita ja toimintoja heidän toimittajien suuntaan ja täten kehittää nopeampaa ja parempaa palvelua loppuasiakkaille.

### Avainsanat

Hankintastrategia, toimittajien seurantamalli, koneenrakennusteollisuus, strategiset hallintatyökalut

### Sivut

76



---

## CONTENTS

1	INTRODUCTION .....	1
1.1	Topic background.....	1
1.2	Research questions and procedures.....	2
1.3	Objectives.....	3
1.4	Key concepts .....	3
1.5	Theoretical framework .....	4
2	RESEARCH DESIGN.....	6
2.1	Research plan .....	6
3	CURRENT MARKET SITUATION .....	8
3.1	Current market situation, competition and trends .....	8
3.2	Procurement history in SKS Automaatio Oy .....	9
3.3	Operating environment.....	10
3.3.1	Political environment.....	10
3.3.2	Economic environment.....	11
3.3.3	Social environment .....	12
3.3.4	Technological environment .....	13
4	PROCUREMENT STRATEGY IN BUSINESS PLANNING .....	14
4.1	Strategic procurement .....	14
4.1.1	History .....	14
4.1.2	Purpose .....	15
4.1.3	Procurement strategy in the future .....	15
4.2	Strategic management tools .....	17
4.2.1	Market research .....	17
4.2.2	SWOT Analysis.....	18
4.2.3	Porter's five forces .....	20
4.2.4	BCG-matrix .....	23
4.2.5	Scenario planning .....	25
4.3	Supply chain management .....	27
4.3.1	Strategic supply chain management .....	28
4.4	Competitive advantage through procurement strategy.....	29
5	SUPPLIER PERFORMANCE MANAGEMENT AND KEY PERFORMANCE INDICATORS .....	31
5.1	Supplier performance management.....	31
5.1.1	Definition of supplier performance management.....	31
5.2	Key performance indicator .....	32
5.2.1	Definition of a key performance indicator (KPI) .....	32
5.2.2	Definition of a key result indicator (KRI) .....	33
5.2.3	KPI vs. KRI .....	33
6	RESEARCH METHOD .....	35
6.1	Survey – quantitative approach .....	35

6.1.1	Main characteristics .....	35
6.1.2	Data collection and reliability .....	36
7	RESEARCH EXECUTION .....	38
7.1	Customer panel.....	38
7.1.1	Objective.....	38
7.1.2	Selection of the participants .....	38
7.1.3	Motivating the customers to participate .....	39
7.1.4	Forming of the questions .....	39
7.1.5	Digium Enterprise .....	40
7.1.6	Customer survey .....	41
7.1.7	Analysis of customer survey results .....	41
8	FINDINGS AND OUTCOMES .....	42
8.1	Customer survey results – Suppliers .....	42
8.1.1	Appreciation of supplier qualities .....	42
8.1.2	Current suppliers fulfil expectations .....	43
8.1.3	Current suppliers quality improvements .....	44
8.1.4	Why improve qualities .....	45
8.1.5	Future objectives in procurement .....	47
8.2	Customer survey results - Component procurement.....	48
8.2.1	Manufacturing country .....	48
8.2.2	Experience in CC-countries.....	50
8.2.3	Needs from CC-countries .....	52
8.3	Customer survey results - Procurement strategy.....	53
8.3.1	Organizations future procurement strategy .....	53
8.4	Customer survey results - Background information .....	57
8.4.1	Employees .....	57
8.4.2	Turnover .....	58
8.4.3	Occupation.....	58
8.4.4	Procurement responsibility .....	59
8.4.5	Participation in drawing .....	59
8.5	Cross-references .....	60
9	DISCUSSION.....	62
9.1	Importance of the research .....	62
9.2	Answers to research questions .....	62
9.3	Reliability and validity of research .....	63
9.4	Added value for strategy development.....	63
9.5	Further research possibilities.....	64
10	CONTRIBUTION .....	65
10.1	Strategic procurement .....	65
10.2	Supplier performance management.....	66
10.3	Suggestions for business strategy.....	67
10.4	Author's learning diary .....	68
	REFERENCES .....	69

---

Appendix 1	Invitation letter to Digium Enterprise customer survey
Appendix 2	Digium Enterprise customer survey

---

# 1 INTRODUCTION

## 1.1 Topic background

Procurement strategy has always been a very important part of the whole business process in organizations and corporations that are focused on importing. For a business that has intentions to grow constantly and has a wide range of products has to put a lot of time and effort to maintain all the suppliers.

The globalization is setting pressure to the Finnish importing companies as the competition gets tougher every day in prices, quality and delivery times.

It is not easy to realize that a lot of unnecessary energy, time and resources are spent when searching for potential new suppliers and choosing which ones are the most reliable and suitable for your own business strategy and which ones can fulfil the customer's needs.

The client of the study is a company called SKS Automaatio Oy that is operational under the family owned concern SKS Group. SKS Automaatio is Finland's leading importer of automation and electrical components for the machine building industry. SKS work with the best component manufacturers in the industry and actively look for new, interesting partners to develop the product range. SKS offers its customers a comprehensive service package. Customers can benefit most by concentrating all of their component and assembly purchases in the technically and logistically strong SKS Group. (sks.fi, 2013)

SKS Automaatio Oy haven't had a specified procurement strategy so far but more than a custom that has let the product managers choose the new suppliers based on their own judgement without doing enough of thorough research about the needs in the industrial market nor what kind of competition exists.

As the competition gets tougher every day, it must be countered in new ways. SKS Automaatio's strategy is not to compete in the product prices but rather to offer services with added values. This study will also produce a model to monitor and measure the performance of the new suppliers and the existing ones.

---

## 1.2 Research questions and procedures

The client of the study, SKS Automaatio Oy has not got a descent strategy on new supplier procurement and is in a stage of strategy renewal and is ready to make changes in the former way of finding new suppliers and new products to offer to the customers. Before taking the new path in the strategy, a market research has to be executed to be able to understand what the needs are, what the future plans are and what kind of experience the customers have in the components they are used to procure. Based on the outcome of the analysis, customers intentions and values it is easier to determine what kind of products or services should be added to the existing portfolio in the future.

The questions this research should answer:

1. What does the customer value in a supplier?
  - What requirements does the customer have?
  - What are the expectations of the customer?
  - What does the customer expect to achieve?
2. What are the primary factors of choosing a supplier?
  - How will the factors be determined?
  - What are the current market trends?
  - What are the resources to choose the supplier?
3. What is the best way to monitor the performance of the suppliers?
  - What are the different methods?
  - What benefits will be achieved?
  - How will it reflect to the customers?

The research question 1 will be answered by gathering information and conducting a survey for all of SKS Automaatio Oy's customers existing in the database. The survey will be executed online by sending out the link to the Digium web survey using email distribution. The research questions will be created based on experience and existing information from colleagues. The question 2 will be answered through existing information such as literature, articles, interviews and theories. The used methods for analyzing new suppliers will be Porters five forces and the outcome of the survey in question 1. The last question 3 will be answered by a combination of the information gathered from the survey in question 1, the outcome of question 2 and from that information Key Performance Indicators (KPI) will be chosen according to the observations. To monitor the supplier annually, a SWOT-analysis and a BCG-matrix will be performed to understand



---

the situation of the products life cycle and the market value for the supplier. Planning of the achieved benefits will be based on observations and from existing literature and articles.

### 1.3 Objectives

The objective in creating the procurement process is to improve the time and effort spent on choosing a new supplier. With a pre-made protocol the quality and reliability will be ensured and will reflect to the customer in a positive manner as the customer will be aware of quality management and requirements for reliability. It will allow SKS Automaatio to focus on the products that has a need in the market by executing a market research and through that, fill the customer requirements in a long run. The cost of finding a new supplier and to discover later that the product didn't have a market or the supplier was unreliable and could not deliver on time, takes plenty of resources and time. By understanding and considering the aspects and requirements on how to eliminate the not-so-potential suppliers from the crowd and how to choose the partners for the future co-operation will have a positive impact on both to the customer and SKS Automaatio Oy. This will also give more time to focus on the right suppliers and create relationships with them.

The objective of the study's monitoring model will set new requirements for the existing suppliers and therefore create additional value for the customers. SKS Automaatio Oy's strategic objective is to invest and develop in services. In the present market situation, price competition will not lead to success as there are too many competitors on the market with similar products. SKS Automation has the possibility and resources to offer larger services as a whole. It has been proven by experience that the customer appreciates more when the supplier or partner can offer all the services within logistics, stocking, planning and technical service as a package. Usually smaller companies only look at the product price but the large and key-accounts look at the bigger picture and the key accounts is the market from which the largest turnover is made.

### 1.4 Key concepts

---

*Low cost country sourcing (LCCS).* The Business dictionary (2012) defines LCCS as a procurement strategy in which a company finds foreign manufacturers with lower wages to find cost-saving in manufacture rather than using domestic operations. According to Timmerman (2005) many industries the procurement from low-cost industries will multiply their needs dramatically within the near future. But it's a very complex technique that demands flexibility and balancing.

*Quality management.* The Business dictionary (2012) defines quality management as activities and functions that determines a company's quality policy, quality planning and quality assurance, including quality control. The ISO organization states quality management in their principles (2012) that companies should understand and fulfil their customer's needs, requirements and expectations.

*Strategic procurement.* Strategic procurement is a partnership that has been created between the supplier and the customer. The relationship is usually based on a long-term cooperation that benefits the both parties strategically. When creating a relationship with a supplier in a strategic manner is to treat both companies as equal partners, help each other with training and education, give technical help both ways and develop the processes together to gain mutual benefits. (Strategic procurement, 1999)

*Supplier performance monitoring.* By measuring and monitoring a suppliers performance constantly or on a regular basis, companies can gain significant benefits. Gained benefits could be such as devastating supply disruptions, reduce risks in defects, delivery reliability or issues with the supplier's process, materials or products. Monitoring the supplier can prevent or spot problems before they grow too hard to overcome or to take maneuvering actions in time. The performance management will also improve the collaboration between the companies that can lead to better coordination and achieve the goals in operations. (Supplier performance management, 2009)

*Supply Chain Management.* Managing the material and information flow in the supply chain to gain high degree of customer satisfaction and lowering the costs. SCM requires the commitment of partners to work closely to coordinate the order process. (The Business Dictionary, 2012)

## 1.5 Theoretical framework

The theoretical framework of the research will be based on procurement strategy as a basis for defining the customer's

needs and on what basis to choose the suppliers. Booth (2010) mentions that by understanding the customer's needs and by letting our suppliers understand our needs is the core to build up your supply chain and understand its capabilities. Booth (2010) also mentions that by figuring out the customers' value now and in the future will help assess and select the best ways to satisfy them. When we know what to deliver to the customers, there can and will be companies to help us and they will be our suppliers as the outcome of the market research will guide the way for defining the needs.

Theoretical framework will also concentrate on supply chain management where the outcome of the thesis will be building up a cross-disciplinary procurement strategy team from the existing departments and staff. As Booth (2010) points out that procurement is not order-taking or order-placing anymore; it is a key business competence. Effective supplier management is about excellence and flawless delivery of customer value proposition. The strategy should be designed to use all the existing resources in the most effective way in order to obtain good partnerships and relationships with the suppliers and the customers.

In order to improve the functions and quality of the suppliers the theoretical framework will also deal with the methods for quality management and supplier performance monitoring. As seen in *Figure 1* the demand and need goes all the way up from the end of the supply chain and the respond to developing the relationship and service going the opposite way in the chain. SKS being an importer, sets in the middle off the chain and in that position has to be able to respond and require to the development and needs in both ways.

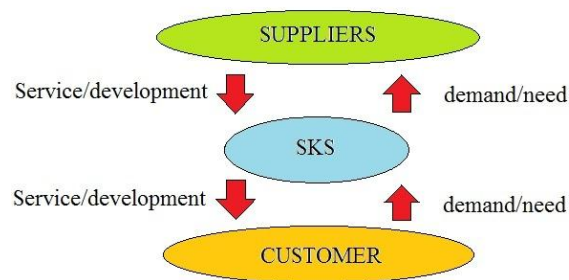


Figure 1 Theoretical framework

The main sources of information will be various literature, articles related to procurement strategy and the company's visions for future strategic processes.

---

## 2 RESEARCH DESIGN

### 2.1 Research plan

The research has been divided into four stages as was mentioned in the previous chapters; 1) Creating the survey questions 2) executing the survey for data collecting from the customers, 3) analysis of survey results and conclusions 4) provide suggestions for a procurement process and monitoring model. The four stages are shown in the research design model demonstrated in Figure 2.

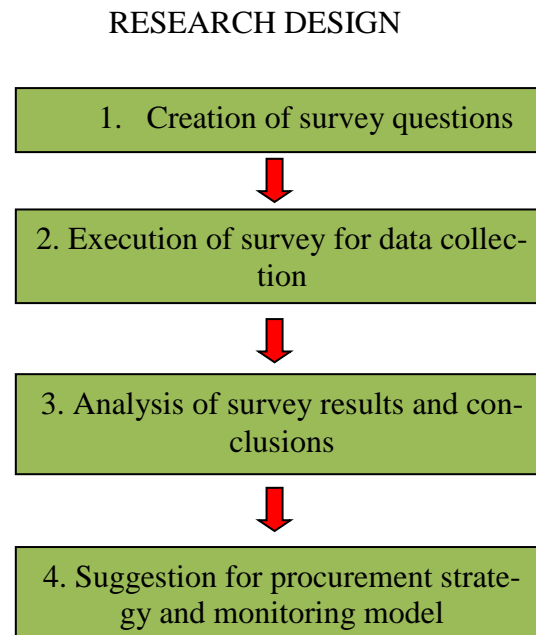


Figure 2 Research design

The first part in the market research is creating the background for the survey questions and the questions will be based on existing knowledge of the company's history and experience, as it has been operational for decades. The content of the survey is divided into three sections where the first part will deal with what the customer experiences and expectations are from their suppliers. The second part will collect data on what are the customer's future foresights and what their attitude is in products manufactured in Competitive Cost-countries because of the present trends. The third part is made to figure out what is the customer's procurement strategy in the future in a larger picture.

---

The second part of the research will execute the survey to every SKS Automaatio's customer that exists in the database with a functional email address. The main target is to collect data from employees that are in contact with the target company's procurement, planning and sourcing.

In the third part, results of the survey will be thoroughly analysed in order to draw clear conclusions of the customer's future intentions and demands of their suppliers. A bigger picture of the current market situation will be determined according to up-to-date articles written by experts and analytics. Theories of foresight and market development will be used to implement the results for the last part.

The last part will gather all the learned theories and all the collected data into a suggestion of a pre-made theoretical process and model.

---

### 3 CURRENT MARKET SITUATION

#### 3.1 Current market situation, competition and trends

The competition in the market is changing rapidly as the suppliers of SKS and the competitors are constantly establishing their own subsidiaries in Finland to handle the business directly to the end customers instead of using distributors.

The wholesalers are aiming to grow their product range and are competing for the OEM-manufacturers. Their strengths are strong logistics, advanced IT-solutions and a wide product range, which allows them a possibility in price flexibility in some products to gain a customer sales penetration. Their weaknesses though are lack of technical knowledge and that is an obstacle when choosing the right component for the customer application. There are signs of improvement in the wholesaler's technical knowledge.

Global web-shops are getting more common every day as the manufacturers and large wholesalers are opening new possibilities for the end customers to procure directly from abroad.

Standing out only with single products is getting more difficult because of the similarity of the components in the market. Manufacturers develop more features constantly and this rapid change in the technical description is a growing challenge for the sales department. This is a challenge for SKS Automaatio Oy as the wide product range gets replacements or developed features that require constant education for sales and maintaining the technical details online. The price still has a strong impact in this field of business due to the amount of competing similar products in the market.

The market in the Finnish machine building industry is not growing anymore but the risk in the future is more so of diminishing. The trend especially with large machine builders is to relocate production into growing markets. The objective is to gain benefit from the local cheaper labour and to deepen the relationships with growing economical companies and their decision makers eg. Eastern Europe and Asia.

Large machine shops tend to bypass the local distributor mostly because of the pressure in prices and also because the traditional importers operation model does not give any value for them anymore. The components procured are more custom made and therefore it naturally more beneficial to deal directly with the component manufacturer.

---

The Finnish small- and medium sized businesses in the machine building industry are still keeping the manufacturing domestic. Still they are very aware of the price level in this sector that puts more pressure on the importers to develop their operations. This sector still values the know-how in R&D and in designing and therefore it looks like the situation will remain in the near future.

### 3.2 Procurement history in SKS Automaatio Oy

According to the SKS Code of Conduct the procurement instructions are very sufficient and narrow. There is only one page for procurement as on the contrary there is thirteen pages of instructions for sales and marketing. This is one of the main reasons why this thesis is being made.

The Code of Conduct for procurement is only focused on who chooses the products, who does the purchase of the products and how they are monitored.

*“Products sold in the current product portfolio complements product/customer-combination suitable products. Products must comply with the laws and government rules and regulations, including environmental requirements.*

*Sales CEOs and sales managers are looking for suitable suppliers and decide for co-operation. Approved suppliers of the products sold are the suppliers that exist in the ERP system and who have a history of events.*

*Purchasing routines to implement supplier data is stored in the suppliers basic info file. Sales assistants maintain the file.*

*Other than those sold in the procurement of products and services, eco-friendliness is taken into account.” (SKS 2000 Code of Conduct, 2013)*

In the past there have been cases where products have been chosen to the products range with not enough of research from the markets. The products chosen has been based on assumptions on how big of a potential the market has in total, the competition level and the customer needs have not been analysed enough. This means resources and time has been spent on marketing, sales, education and warehousing without any beneficial results.

---

### 3.3 Operating environment

The operating environment is described in the following chapters through political, economic, social and technological environments.

#### 3.3.1 Political environment

Finland has a good situation for exports in the political sense. The government funds entrepreneurs and growing small and medium sized companies to be able to grow their operations and possibly create jobs and networks. Finland has a very strong infrastructure that supports the possibility to a versatile industrial regeneration. (Foresight.fi, 2013)

The educational system is free for all Finnish residents and gives the possibility for an individual to educate him- or herself into a higher grade of expertise. The government is constantly investing in keeping or increasing the level of innovations and bringing known experts from the world to lecture and bring more knowledge to the students. This gives Finland an advantage in keeping the know-how and designing in the country, as the trend is to move production abroad in hope for lower labour and material costs. (Foresight.fi, 2013)

EU has made it possible for a trade-free zone between the EU-countries which advances the export/import business within the market. Over the next two years approximately 90% of world demand will be generated outside of EU. (European Commission Memo, 2012) This is why EU will try to negotiate new opportunities with key countries for free trade agreements. This will open up better opportunities for export business to grow in these unstable economic times.

As China is one of the new growing market powers a company thinking of expanding or starting to run a business in China must take notice of the political issues. The government clearly tries to protect the Chinese market by having a very complex bureaucracy and lots of tariffs and taxes for western companies. This goes also for Russia where it is very hard to start operating in hope for reduction costs in labour. The customs does not make it easy for an organization to import material and then export it as a product. The bureaucracy is very complex and there is to be known corruption at some level.

The climate politics will be more strict beginning from 2013 and this will affect the price of right to emit, electricity costs, industrial competitiveness and the whole economic develop-



---

ment in Finland and the EU-region. The objective is to reduce greenhouse emissions down by 80-95% by the year 2050. The energy consumption is heavily affected by the climate and therefore, Finland with its cold winters, means that the energy consumption is bigger and more expensive in the Nordic countries than in the southern part of Europe. When the cost of electricity goes up, so does the costs of heavy industry manufacturing and that weakens the competitive position for companies in the market. The best way in this scenario is to invest in renewable energy sources such as wind power to reduce the costs of right to emit. (EU:n ilmastopolitiikan talousvaikutukset vuoteen 2020, 2012.)

### 3.3.2 Economic environment

The world economy is in a state of instability as it has been for the last few years after the economic breakdown in 2008 and the Euro crisis that is current when this thesis is written in the beginning of 2013. Investments are more focused in service and renovations instead of renewing machinery and equipment, which creates a big challenge for the export industry. In 2011 the export industry in Finland has a percentage of 39,1% from the GDP. (Ulkomaankauppa, 2012). When the export is declining, it strongly affects the whole manufacturing industry and the subcontractor network.

Since 2008 the US is no longer the world's dominating economic power and the world have changed into an "Ogliopoly" where the centric countries are US, China, India, Europe, Brazil, Russia and South-Africa. According to European Commission 30% of the world's GDP by the year 2025 will be in Asia and about 20% in Europe. (Foresight.fi, 2013) This means the growing markets and production will mainly be focused in these areas.

As shown in Figure 3 the new orders for the manufacturing industry in Finland has been declining almost every month for the past year 2012. This goes for all the other sectors also in various numbers. The only growing sector has been the chemical industry. In 2012 there was many new mining projects started, but most of the investors come from abroad because there is not enough domestic capital funding. The government has assisted the mining industry by improving infrastructure by building railroads and increasing education of the mining industry.

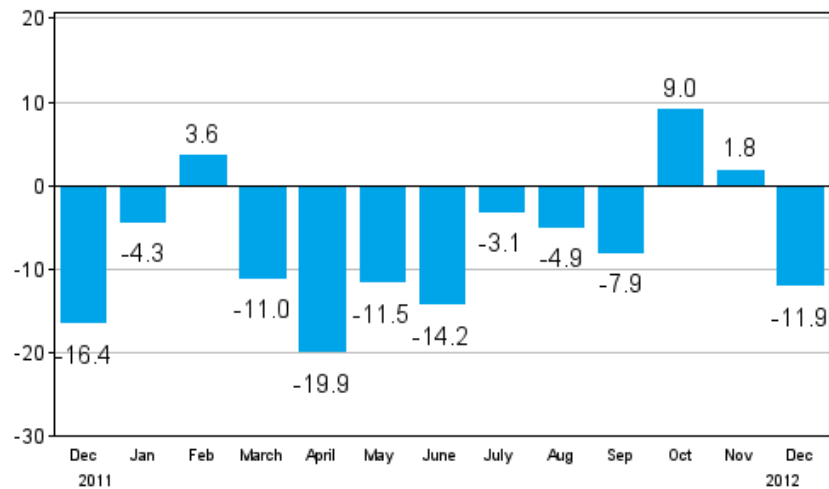


Figure 3 New orders in manufacturing

The challenge of this situation is to find the existing and new business and trying to find cost effective solutions for the customers to improve their global market value through cost savings.

### 3.3.3 Social environment

One of the known social trends is the ageing people in Finland. As the generations change and the size of the families amount of children has reduced there is more people retiring than there is youth coming into the work life. This means that there is a deficiency in labour. One of the solutions the government has started to react to this problem is bringing more immigrants into the country to fill the gap. Also students from abroad are tempted with free and high level education to come and study and perhaps stay and work in Finland. In a way this is a part of internalization and the knowledge of other customs and cultures is growing within the population. Even though the ageing is a problem, the changing into a more cross-cultural environment is an advantage for the exporting companies as it is easier to interact and create relationships with the customers abroad.

Another problem occurring that relates to the ageing people is the possibility to go part-time retirement a few years before the final retirement. This has both pros and cons. The good thing is that the elderly employees have a chance to have more free-time and begin enjoying partly of the coming final vacation. This is a respectful gesture from the government and has positive psychological affection. The negative side is for the employers as the part-time worker cuts down one person's manpower down a half. That half is delegated upon the

---

colleagues and creates stress and over employment. If a new employee is hired to fill the deficiency then the resources goes up by a half and that means more costs.

Ecological thinking is one of the present trends that keep changing the markets. As mentioned earlier in the political restrictions of the right to emit has also affected the mind state of companies and consumers. Businesses and people are constantly adopting into the lifestyle of green thinking and trying to help the environment from slowing down the climate change and to using renewable material resources. The environmental certificates that a business can get has a positive promotional value when marketing. It also affects the employees in a positive manner as they know the work they are involved in has a certain responsibility towards the environment.

#### 3.3.4 Technological environment

We currently live the technology era that has evolved into the use of computers and the internet as a daily basis in our work and lives. The internet has made it possible to interact with people and businesses in long distance countries fast and easily. Network based operations allows the internationalization of organizations.

In the business world the globalization has had an incredible leap due to the new technology. The trend is also that the technology is exported and settled into developing countries because of companies finding new resources in material and labour. Again this has pros and cons. The good side is that the communities that earlier was more on the not-so-advanced cultures is now growing fast and the area is developing fast with businesses set up and money coming into the government through taxes. The employees and the youth gets education and knowledge more about recent technology and therefore evolves them more into the modern communities. The bad side is that many big companies abuse this situation in mishandling the employees in labour rights because of greed. The new technology has a negative impact on the environment due to pollution and construction sites.

The technology is still evolving at an incredible rate and that means that companies has to constantly find out new innovations or features for their products to be able stay competitive in the hard market situation.

---

## 4 PROCUREMENT STRATEGY IN BUSINESS PLANNING

### 4.1 Strategic procurement

Strategic procurement is analysing how money is spent in the organizations current procurement. The purpose of enhancing the procurement process is to make procurement more efficient and save the company money and time. Strategic procurement is a part of supply chain management and as mentioned earlier in the Introduction the objective is to monitor also the suppliers and rapport monthly of the processes in order to enhance the streamline.

Strategic purchasing is a term used when a company is benefiting the purchasing professionals to interact with the suppliers and the company management. The idea is to redefine the buying processes and habits to enhance the profitability. (wikianswers.com, 2013)

#### 4.1.1 History

Procurement is acquisition of goods or services. The main idea is to try to procure the goods/services at the best terms of quality, quantity, price and time. According to Ioan Brumer (2012) procurement goes back in history all the way to the Egyptians. In pyramid building the Egyptians kept track of the supply of the building materials and workers on papyrus rolls in 3000 BC. Ioan Brumer (2012) also states that the procurement found the first time its way into the business world in 1887 when Marshall M.Kirk published his first book on procurement titled: *The handling of railway supplies. Their purchase and disposition*. The next big leap the procurement function took was during the World War I & II when factories and mines were depending on raw materials, supplies and services. During the 80's and the 90's procurement began to take its form as being more integrated into the overall corporate strategies.

According to Booth (2010) for the last 20 years the most important aspect for the modern business model has been 'Focus on the Core'. As a result most of the modern companies concentrate on the 'core' and rely too much on the suppliers to do the rest. This has created a very complex web of cross-company relationships that most companies struggle with to be able to manage it completely. It is only now after the

---

2008-2009 global recession, when strategic procurement is starting to be a real crux of business strategy and the golden age is yet to come.

#### 4.1.2 Purpose

According to Slaight T. (1999) a company who is looking for advantages in supplies should sort through its suppliers and determine how they should change the relationship and the role of the supplier. The company should choose the status of the relationship out of three options; transactional, collaborative or strategic. In other words which relationship to develop and which to take to an end.

The common purpose for the organization is to work together with the suppliers to gain and develop mutual objectives and strategies. The processes should be designed to work seamlessly between the both parties. This should also include processes related to product features and development, delivery and invoicing by using technology as a key tool. Communication should be taken to level where it creates new opportunities and new processes to create tactical value. (Slaight T, 1999)

To gain these strategic relationships with a supplier takes time but will eventually strengthen the market position which includes cost leadership, customer service and market penetration. (Slaight T, 1999)

This strategic relationship will eventually pay off around cost leadership and value-creating supplier relationship, although it addresses the following:

- Organization
- Changing mind-set
- Information sharing
- Use of information technology
- Supplier management

#### 4.1.3 Procurement strategy in the future

The future of procurement will be observed from two different points of view. The first one will look at the 1998 study named: "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" written by A.T.Kearney from the Arizona State University. The interesting part is that this is over 10

---

years old study, but still it is relative as companies has not yet emerged into the modern market where this could be taken for granted. A.T.Kearney points out the following statements:

- Future purchasing must tightly integrate with the supplying organizations.
- Evaluation of the suppliers must become more precise and detailed.
- Supplier metrics must be customized to each supplier's performance.
- No trend is strong enough to reduce complexity and standardize by using only one supply chain metric.

These are extremely relevant statements if thinking of companies how they want to evolve in the competition and how leading companies will develop their procurement strategies. Those who apply will definitely gain advantage in the competitive market.

Tom Seal (2011) concludes that the megatrends of the future will influence the procurement world and have a great impact on how procurement will be done in the days to come. A series of executive-level, supply chain professionals and leading procurement academics gathered in events that were held in Munich, New York and Shanghai to discuss the megatrends. The coming megatrends were recognized as following:

### **Socially responsible corporations**

Consumers and investors will associate themselves with organizations that support their ethical ideals. The two main avenues for these responsibilities are human rights and environmental performance. It is procurement's responsibility to manage and own these relationships with a supply base that will inevitably come under closer scrutiny over the next decade

### **The rise of Asia**

The transition from low-cost markets to key customers. Countries such as China will move from low-cost sourcing hubs to sources of innovation. The market will mature in terms of goods produced and goods consumed.

### **Persistent insecurity**

Individuals and corporations will perceive a constant risk of cyber-attack and terrorism. The fact that we have begun to

---

operate in geographies that are more susceptible to natural disasters will also impact procurement into the future.

### **Scarcity of Natural Resources**

We will move beyond straightforward inflation; the supply of critical resources will no longer be a question of money.

### **Diversification of Offering**

In order to meet evolving consumer demands, companies will provide even more personal and customized services to their customers.

### **Leading from the Middle**

As supply chains become more collaborative and complex, the roles and responsibilities of middle managers will increase. The role of an omnipotent CPO/CEO will diminish.

### **Localisation**

As emerging markets become critical customers, we need to tailor products to suit customers in multiple geographies.

Even though the global trends mentioned above vary in importance and are more or less affecting different fields of business they are already recognized by some organizations and they have even begun taking steps to manage them.

## 4.2 Strategic management tools

The tools of strategic management will help in analysing the current and future market situation. They create the opportunity to understand what the competition, market demand and level of competition is. Based on the outcome of the analytic results, procurement strategy can be implemented rightfully with the company's business strategy.

The chosen tools are based on the suitability with SKS Automaatio Oy's field of operations and how they fit with the products and services that can be found in the company's portfolio.

### 4.2.1 Market research

Market research is a systematic way of collecting information from the market to help managers do the right decisions when creating business strategies. The most common information gathered are to reveal the market size, use and attitude of products, customer satisfaction and loyalty, effectiveness of promotion, identifying trends, determine pricing strategies, brand influence and effectiveness in segmentation strategies. According to Paul Hague (2004, 16) there are two important schools in market research – qualitative and quantitative research. The qualitative research is used to provide diagnostic data by using focus groups and depth interviews. The quantitative research is run by large amounts of interviews or surveys and the results represent the larger market from where the sample has been taken.

The difference between the qualitative research and quantitative research, or which one to use, depends of the objective and the nature of the problem at hand. Each of the methods has their strengths and weaknesses and it is up to the researcher to choose the right method. The practical differences are displayed in Figure 4.

Qualitative	Quantitative
The aim is a complete, detailed description	The aim is an accurate, reliable explanation.
Used when the researcher has no, or very little idea of what he/she is looking for.	Used when the researcher knows clearly in advance what he/she is looking for.
Used during earlier phases of research projects.	Used during latter phases of research projects.
The design starts out quite loose and emerges as the study unfolds.	All aspects of the study are carefully designed before data is collected.
Researcher is the data gathering instrument.	Researcher uses tools, such as questionnaires to collect data.
Data is in the form of words, pictures or objects.	Data is in the form of numbers and statistics.
Subjective - individuals' interpretation of events is important ,e.g., uses observation, in-depth interviews etc.	Objective – seeks precise measurement & analysis of target concepts, e.g., uses surveys, questionnaires etc.
Qualitative data is more 'rich', time consuming, and less able to be generalized.	Quantitative data is more efficient, able to test hypotheses, but may miss contextual detail.
Results may be influenced by the researcher.	Researcher remains objectively separated from the subject matter.

Figure 4 Qualitative vs. Quantitative Research

#### 4.2.2 SWOT Analysis

The SWOT analysis is a tool for analysing your organization and its environment, such as the surrounding market. SWOT is the most common tool for analysing and it is the first stage of planning. The SWOT analysis lets you know where your business is today and where it could be in the future, it also is a good tool for solving problems, determine changes and ad-



just plans. The Figure 5 shows the structure of the SWOT-analysis where the internal and external factors are analysed to find the added value to the matter that is been analysed.

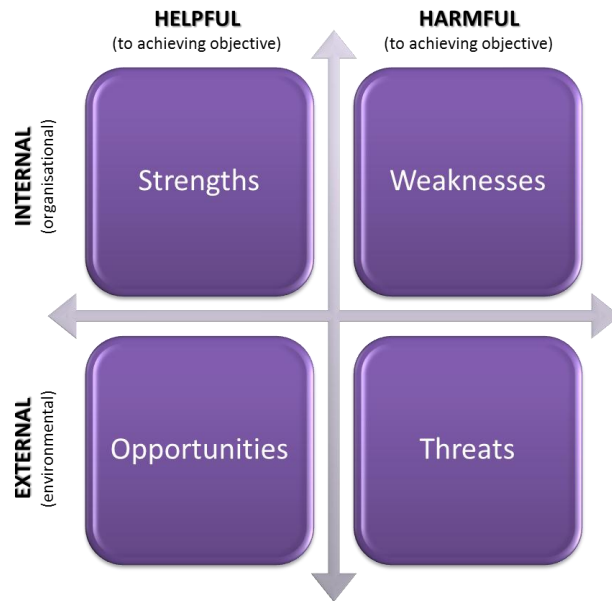


Figure 5 SWOT Analysis

The SWOT analysis focuses on four elements Strengths, Weaknesses, Opportunities and Threats. The main idea is first to identify the problem, analyze, conclude, and to create an action plan. When the positive and negative factors are identified, the business can maximize strengths and use them to reduce weaknesses, take advantage of opportunities, and avoid or minimize threats. According to Val Renault (2013) the SWOT analysis is the most easy and helpful tool when supporting the vision, mission and objectives that exist in the company.

While the SWOT analysis is focusing on using to use the strengths and weaknesses to reduce the threats and maximize opportunities, the TOWS analysis identifies the external threats and opportunities and compares them to the organizations internal weaknesses and strengths. [zideate.com]

The TOWS matrix is similar to the SWOT matrix except that with this tool you can turn the results from the SWOT into strategies. In Figure 6 is displayed an example on how the TOWS matrix should be set up.

	<b>Opportunities (external)</b>	<b>Threats (external)</b>
	<i>Opportunity 1</i>	<i>Threat 1</i>
	<i>Opportunity 2</i>	<i>Threat 2</i>
<b>Strengths (internal)</b>	<b>S-O Strategies</b>	<b>S-T Strategies</b>
<i>Strength 1</i>	<i>S-O Strategy 1</i>	<i>S-T Strategy 1</i>
<i>Strength 2</i>	<i>S-O Strategy 2</i>	<i>S-T Strategy 2</i>
<b>Weaknesses (internal)</b>	<b>W-O Strategies</b>	<b>W-T Strategies</b>
<i>Weakness 1</i>	<i>W-O Strategy 1</i>	<i>W-T Strategy 1</i>
<i>Weakness 2</i>	<i>W-O Strategy 2</i>	<i>W-T Strategy 2</i>
<i>Weakness 3</i>	<i>W-O Strategy 3</i>	<i>W-T Strategy 3</i>

Figure 6 TOWS Analysis

The factors identified from the SWOT analysis is filled in on the outer sections for it to be easier to create the strategies in the middle sections. The middle sections are described as following:

**SO** - Use internal strengths to capitalize on external opportunities. How do you use your strengths to take advantage of the opportunities? (mindtools.com, 2013)

**WO** - Improve internal weaknesses by using external opportunities. How do you make sure your weaknesses don't prevent you from taking advantage of the opportunities? (mindtools.com, 2013)

**ST** - Use internal strengths to avoid external threats. How do you use your strengths to make sure the threats never eventuate? (mindtools.com, 2013)

**WT** – Avoid threats and minimize weaknesses. How do you make sure your weaknesses don't cause your threats to eventuate? (mindtools.com, 2013)

#### 4.2.3 Porter's five forces

The Porter's five forces analysis is a tool that helps determining how competitive a market is and how attractive a market is. The analysis helps you determine on your own situation and what the status is of the market you are about to enter. The tool also helps to identify how competitive the market is

and if there is potential for profitability in the desired market.  
(mindtools.com)

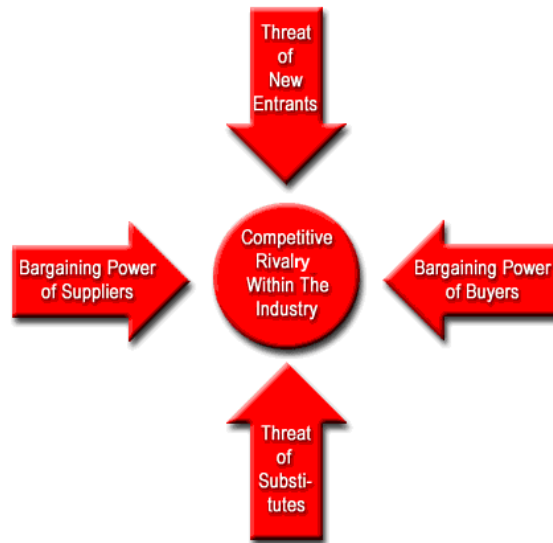


Figure 7 Porter's Five Forces

The five competitive forces identified by Michael Porter are displayed in Figure 7 and described as following:

### **Threat of substitute products**

Threat of substitute products determines how easy it is for your customers to find a replacing product. The threat is relatively high for the following reasons:

- There is a lot of similar products on the market
- There is similar products of services on the market for the same price or cheaper
- Competitor products have a better quality
- The substitute product is owned by a more profitable company that has the possibility to sell their product for a cheaper price (notedesk.com, 2009)

### **Threat of new entrants**

Threat of new entrants weakens your position when the market is attractive and new competitors enter the market. The threat is relatively high for the following reasons:

- Customers are not loyal enough to your product
- The achievement of economy scales
- Customers can easily switch to cheaper product

- 
- Lack of patents and or technological protection
  - Product is not differentiated  
(notedesk.com, 2009)

### **Industry rivalry**

Industry rivalry means how competitive the market is and how many rivaling competitors exist in the market. Industry rivalry is relatively high for the following reasons:

- Equal competitors or a market leader
- Low switching costs
- Industry is growing
- High exit barriers
- Fixed cost generate mass production and lowering prices  
(notedesk.com, 2009)

### **Bargaining power of suppliers**

Bargaining Power of suppliers defines how much your suppliers have power in controlling the prices of the products. Suppliers' power can come from:

- Suppliers have a strong market share
- Only a few suppliers in the market
- No other substitute for the supplier's product
- Switching to another supplier is too expensive
- Your purchasing power is too low (notedesk.com, 2009)

### **Bargaining power of buyers**

Bargaining Power of Buyers means when the customers are strong and possibly work together to set the prices:

- Only a few buyers with big market share
- The buyers quantities are huge
- No differentiation in the product
- Switching is low
- Low priced products
- Price sensitive buyers  
(notedesk.com, 2009)

#### 4.2.4 BCG-matrix

The Boston matrix was originally created in the 1970's by the Boston Consulting Group to help companies allocating resources to maximize profit. The 2\*2 matrix is based on how market share and market growth rate interrelate. The matrix is displayed in Figure 8.

The company's market share can be measured from the total market share by the percentage of revenue or units. This means that the higher the percentage is, the more control of the total market share the company has. (mindtools.com, 2013)

This can be interpreted that if your company has a high market share, is it necessary to invest more money into the product even though it is already generating money.

Market growth is a term used for markets that are expanding and therefore are more attractive for businesses. Growing markets are easy for companies to manage and grow profits even though their share remains stable. (mindtools.com, 2013)

On the opposite the competition in low growth markets are usually tough and even though if the product has a high market share now, it is rather hard to maintain and keep the market without price competition. Low growth markets usually have a low profit and have a high level of competition.

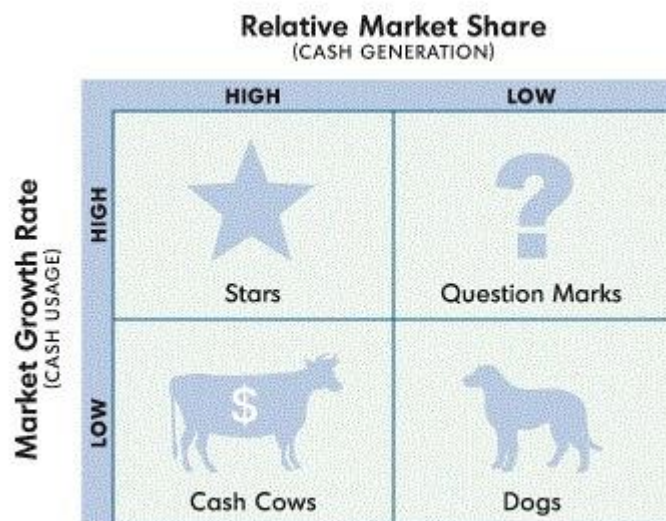


Figure 8 BCG Matrix

The categories in the matrix are divided into four opportunity groups:

---

### **Stars**

Stars represent products that generate huge amounts of cash because they have a large market share. They also consume a lot of cash because their growth rate is relatively high. If the star can be maintained to keep the large market share, it hopefully will become a cash cow when the market growth rate declines. (mindtools.com, 2013)

### **Cash Cows**

Cash cows represent products that are leaders in a large market and generate more cash than what they consume. The cash cows should be extracting the profit and invested in as little as possible. Cash cows are usually used to provide the necessary cash flow to turn question marks into stars and to generate profit for the company to cover the expenses of R&D, administrative costs and to pay dividends to shareholders. (mindtools.com, 2013)

### **Question Marks**

Question marks represent products that are in a state where lots of investments need to be made to keep the product growing and gaining visibility. Question marks might turn into stars after a unknown period of time and eventually turn into cash cows to generate profits. This means question marks must be evaluated carefully and constantly be monitored for its share in the market. (mindtools.com, 2013)

### **Dogs**

Dogs represent products that have a low market share and low growth rate. Dogs don't generate any more cash or profit for the company as they are closing in on the end of the product life cycle. Unless the dogs have some strategic purpose or extending the life cycle by updating the product the dogs should avoided or terminated from the product range. (mindtools.com, 2013)

After the products have been placed in the matrix there are usually four typical strategies that should be applied for further actions. The typical strategies are:

1. Build market share and invest further. Keep generation cash with Stars or invest in Question Marks and turn them into Stars.
2. Hold and maintain the status of the product.
3. Harvest and reduce the investment or maximize the profit from a Star or a Cash Cow.

- 
4. Divest and get rid of Dogs. Use the capital received investing in Stars and Question Marks.

One has to bear in mind that sometime Dogs may help other products in gaining a competitive advantage for example as being a supporting product. Situations like this, has to be observed with a special focus and determination if added value is perceptible.

#### 4.2.5 Scenario planning

Scenario planning is a tool for predicting the future of a business' external environment and gives the opportunity to avoid threats and to identify important opportunities. Scenario planning originates from military operations mostly associated with variable scenarios in case on thermal nuclear war. It transformed into a business strategy in the late 1960's by Pierre Wack for the oil company Shell. It turned out that Shell was well prepared for the oil crisis in 1973 and improved its competitive position as a result of scenario planning. (Scenario planning, 2013)

The idea of scenario planning is not to predict the future but rather to be prepared for different possibilities of how the future could turn out to be. The main benefits of scenario planning helps understanding and accepting the uncertainties that exist in the environment and exposing blind spots that otherwise might be overlooked. It also allows recognizing scenarios in their early stages and therefore helps to react better and faster to take actions or to change strategies. Even the planning process of scenarios helps managers to obtain a better understanding of disagreements and issues that occur in organisations. (MBA Help – Strategy, 2013)

Mark Polczynski (2009) describes the steps of the process as following:

- 1. What problem are you trying to solve?**
  - a. Specify time scale
  - b. Specify stakeholders
- 2. Information gathering**
  - a. Which decisions resolves the issue
  - b. Consider success of failure
  - c. Conditions of events that determine success or failure
- 3. Identify driving forces**
  - a. Society and its structure including demographic, economic and political factors, and public opinion

- 
- b. Markets and customer behavior
  - c. Technology and innovation
  - d. Industry competitive structure
  - e. Organizational capabilities and core competences
- 4. Identify critical uncertainties**
    - a. The degree of importance for the success of the decision or issue under consideration.
    - b. The degree of uncertainty surrounding these factors and forces.
  - 5. Create scenarios**
    - a. Winners and losers- a zero sum plotline where the strong survive and the weak get weaker.
    - b. Challenge and response- an adventure story of overcoming obstacles and being transformed in the process.
    - c. Evolution- slow change in growth or decline in response to environmental influences.
  - 6. Compose the scenarios**
  - 7. Scenario application**
    - a. Examine decisions in each scenario
  - 8. Identify key indicators**
    - a. Define signposts that reveal the scenario from happening
  - 9. Monitor key indicators**
    - a. Monitor and take immediate actions if scenario is unfolded
  - 10. Update scenarios and strategies**

The different type of scenarios was developed by Fahey and Randell (Mietzner D, 2005) can be chosen from global scenarios, industry scenarios, competitor scenarios and technology scenarios.

*Global Scenarios:* These scenarios are a guide to different scenarios which each have different affections on long-term investments, operational decisions and analysis. (Mietzner D, 2005)

*Industry scenarios:* These scenarios gives the managers the possibility to identify different scenarios and differences in the future of an industry and how to react to these situations to triumph. (Mietzner D, 2005)

*Competitor scenarios:* These scenarios offer a method in recognizing and experimenting competitor strategies in various situations. (Mietzner D, 2005)

*Technology scenarios:* These scenarios helps managers to understand the and guide in making technological decisions in the unknown future market. (Mietzner D, 2005)



---

Scenario planning has multiple strengths that helps develop managers to rethink the hypotheses on which their strategy is based. Scenario planning is not only predicting one future but instead multiple futures side-by-side that enhances the way of opening up the mind for unimaginable possibilities. Planning multiple futures on a long-term basis gives the opportunity to recognize ‘weak signals’ and to take actions in time or to ‘turn the ship before it crashes’, even the organisation can learn on how to handle new situations as they arise. Scenario planning should not be done by one person as the idea of identifying different futures is to ‘brainstorm’ scenarios. This will improve the communication skills as it can lead to creating a common language in strategic conversation within the organization. The whole planning process of the scenarios will help in coordinating and implementing actions and thus will aid in the process of making decisions. The weakness of scenario planning is because it is very time consuming. Not only does the planning take a lot of time but also the gathering of information regarding to the problem makes it even more time consuming. Scenario planning is mainly a primary tool for large multinational companies but also small- and medium sized companies benefit from it, maybe more in the way of developing the internal communications and organisational learning than the external environment. (Mietzner D, 2005)

#### 4.3 Supply chain management

Supply chain management (SCM) has been around since the first introduction of assembly lines. The first time it was mentioned as a business term was in the 1982 by Keith Oliver from Booz, Allen and Hamilton Inc. Supply chain management is a process where the flow of materials, finance and information are monitored and managed. The supply chain consists of the product being manufactured from raw material all the way to the end-customer as a final product. The final price for the product is depending on many factors and added costs that consist of packaging, shipping, storing, salaries, rents, insurances and other relevant cost to uphold the supply chain. The ultimate goal for an effective supply chain is to reduce inventory but still have them available for the customer when needed and yet keep the price at a competitive level. Today’s supply chain management is mostly managed by a computer software system that is specifically designed for the task. (Rouse M, 2010) Human operators are still needed to set the parameters for the software. Radical changes in the material flow, demand of material, and reaction to big orders have

---

to be also coordinated by an operator in order to keep the material flow as flexible as possible. The supply chain must be handled both ways as customers must be able to return defective products or problematic products.

#### 4.3.1 Strategic supply chain management

At strategic SCM a company's management does supply chain decisions at an organizational level that reflects the overall of corporate strategy. Right strategic decisions can turn supply chain threats and problems into opportunities and values. As Carlos Cordon (2012, 10) mentions that in the last few years companies have changed from a market-driven strategy into a more supply driven business model. The instability of prices, lack of components vs. demand, has brought the supply side of business more relevant than before. Martin Murray (2013) describes the strategic supply chain management into five processes; Product development, Customers, Manufacturing/Importing, Suppliers and Logistics.

##### **Product development**

The management of a company should define a strategy on what kind of products or services the organizations should offer to their customers. As the product life cycle mature or a products sales decline the management should make strategic decisions on what the direction should be whether they bring new products to the market or develop features of existing products. These decisions may also include in acquiring new suppliers or to stop importing declining product suppliers. The decisions made should be aligned with the overall company objectives.

##### **Customers**

The strategic decisions concerning the customer, should be identifying the need and demand of the customer products and services. Customer segment must also be identified as the have a big role in the marketing and advertising of products. Customer surveys help understanding what the customer values and what are their future plans.

##### **Manufacturing/Importing**

Strategic decisions regarding manufacturing or importing defines the infrastructure and technology that is required. Forecasting and estimating sales figures will help in how products need to be manufactured or imported. Decisions in changing to lower quality and cheaper components, subcontracting, operating overseas or using third party logistics will have a strategic impact in the company operations.

---

### **Suppliers**

Suppliers have a big role in every business' strategic policy. Reducing the money that is spent in purchasing can directly relate to increase in profit. The decisions have to be made according to the company overall policy. Supplier performance can be monitored by key performance indicators in order to define whether the supplier can bring competitive advantage to the market when comparing to the existing market situation.

### **Logistics**

The logistic function is the key to success of the supply chain. Order fulfilments and delivery on time is an important part of a strategic supply chain and should be considered seriously. The design and operations of the network should be organized properly to gain significant value. Warehouses, distribution centers and what type of transportation should be used are all part of strategic decisions.

The management or leadership is in the key role of creating and maintaining a working supply chain as there are many companies and different kind of people involved in the supply chain and by managing this, the supply chain can be turned into competitive weapons. As mentioned above in the processes of strategic supply chain, decisions have to align with the company's overall objectives to gain the best efficiencies. Communication and constant maintaining the relationship with partners and suppliers is extremely important as this will make both parties be able to understand the demand and align the supply chain in a mutual pace. These actions will not only benefit the company, but also the partners and customers.

## 4.4 Competitive advantage through procurement strategy

It has already been demonstrated that procurement strategy is extremely important for a company to gain competitive advantage. Procurement strategy is a practice that has to be dealt with in the everyday business even though the human nature tends to get bored for doing the same things over and over. Even if a company is doing well in procurement the challenge is to maintain and keep the procurement at the level where the advantages are identified and proven to save time, money and resources. (Booth C, 2012)

The key factor in getting the value from procurement strategy is to make sure everyone in the company, including board members, understand and can relate to the values and the objectives of total costs. The best way to recognize this is by

---

measuring and reporting the improvements that are gained by the procurement strategy development.

The other important thing is to make the suppliers understand the objectives and benefits of the strategy. When the suppliers relate to this, the relationship and trust will deepen and opportunities can be gained together and risks may be shared. By maintaining the whole supply chain everyone benefits from the cost savings including the suppliers, importer and ultimately the customer. No business can survive without customers.

Procurement is not anymore the order placing routine but a modern process of a business strategy and must be taken into consideration seriously to be able to keep up with the evolving competition.

---

## 5 SUPPLIER PERFORMANCE MANAGEMENT AND KEY PERFORMANCE INDICATORS

### 5.1 Supplier performance management

All organizations must be able to manage the risks effectively to be successful in their business. When the business is depending on a supplier network the company must realize possible risks in product defects, delivery failures, lack of materials and weak performance. The risks have to be recognized in time to be able to take actions and manage them effectively. The risks can never be completely reduced to zero and every disaster prevented, but the total number can be reduced with performance management. An important way to reduce the risks of the suppliers is periodic monitoring and managing.

#### 5.1.1 Definition of supplier performance management

One important thing when monitoring the supplier performance is that the objectives must align with the overall strategy of the company. If not, then this might lead to a waste of resources and an ineffective program. The objectives must be clearly defined, specific and should include a timeline. They should be written down in the company policy and be well known by the people involved in the program. The most common areas the companies measure are financial health, operational performance, contract compliance, business processes and overall costs, these measures are called Key Performance Indicators (KPI's). The suppliers that should be considered for monitoring should be important for the company and have high strategic value because they contribute more risks. The areas to focus for improvements should be considered together with the supplier as different organizations as they have different structures in their supply chain and manufacturing arrangements. (Wheaton G, 2009) In order for both parties to commit to the constant development of services and logistics, contracts must be managed for both parties in an understandable and sensible manner. The supplier should be monitored regularly and concluding if the supplier should be invested in more development or it should be out phased. The process can be seen in Figure 9.



Figure 9 Supplier management process

## 5.2 Key performance indicator

KPI's will help organizations to achieve the goals and measure the success that are set in the company's objectives. KPI's are long-term considerations and should not be changed between the periodic reports in order to keep the results reliable. KPI's should be monitored daily or weekly, because if it monitored monthly or quarterly it might be too late to take preventive actions. The indicators are current- and future-oriented measures that helps adjusting of foresight and leading to better customer service. The KPI's should tell the company on what kind of actions it should be taking. According to David Parmenter (2010) the lack of understanding of performance measures has led most cases into failure. The casualty has often been the balanced scorecard that is a very useful tool but only work if the right measures are in it.

### 5.2.1 Definition of a key performance indicator (KPI)

The KPI's are nonfinancial measures that should not be expressed in any currency. The KPI's should be measured constantly and rapidly in order keep the company on track in real-time. The indication the KPI's shows should be managed by the CEO or sales manager that he can guide the staff into understanding the correct tasks. The KPI's should also have a significant impact on the success factors and objectives. The KPI's will measure the performance of your activities but does not tell the outcome or results. (Parmenter D, 2010)

The KPI's should follow these values:

**Specific** – pertaining the goal of the organization

---

**Measurable** – for the organization to assess its process  
**Achievable** – realistic in terms of business environment  
**Relevant** – directly linking the business and metrics  
**Time-Bound** – placing goal achievement in a certain time-frame

### 5.2.2 Definition of a key result indicator (KRI)

David Parmenter (2010, 2) points out that often people mix the terms Key Performance indicators and Key Result Indicators (KRI). The KRI's is the result of many actions and they give a clear picture whether you are going to the right direction but on the contrary they don't tell you what you need to do to improve the results. The KRI's cover a longer period of time and needs only to be monitored on a monthly or on a quarterly basis. The KRI's could include:

- Customer satisfaction
- Net profit
- Customer profitability
- Employee satisfaction
- Return on capital employed

### 5.2.3 KPI vs. KRI

Kaplan and Norton refer them as Performance drivers (KPI) and Outcome measures (KRI). To achieve the best result is to use a combination of KPI- and KRI-indicators. The idea is that without the KRI the KPI becomes useless because you cannot know the results and therefore get any early warnings on how to achieve your strategic goals. The same goes the other way also, without the KPI the KRI might enable you to focus on short-term performance but you will not be able to reveal the complete organizational outcome. (slideshare.net, 2010) Figure 10 demonstrates the difference between the indicators.

<b>KRIs</b>	<b>KPIs</b>
Can be financial and non financial, e.g. Return on capital employed, and customer satisfaction percentage	Non financial measures (not expressed in \$s, Yen, Pds, Euro, etc)
Measures mainly monthly and some times quarterly	Measured frequently e.g. daily or 24 by 7
As a summarize of progress in an organization's critical success factor it is ideal to a Board.	Acted upon by the CEO and senior management team
It does not help staff or management as no where does it tell what you need to fix	All staff understand the measure and what corrective action is required
Commonly, the only person responsible for a KRI is the CEO.	Responsibility can be tied down to the individual or team
A KRI is designed to summarize activity within one CSF	Significant impact e.g. it impacts on more than one of top CSFs and more than one balanced scorecard perspective
A KRI is a result of many activities managed through a variety of performance measures	Has a positive impact e.g. affects all other performance measures in a positive way
Normally reported by way of a trend graph covering at least the last fifteen moths of activity	Normally reported by way of an intranet screen indicating activity, person responsible, track record etc so a phone call can be made.

Figure 10 KRIs vs. KPIs



---

## 6 RESEARCH METHOD

### 6.1 Survey – quantitative approach

The chosen method of quantitative research is the primary method for collecting data for this research. The method has been proven to be very cost effective and can reach a huge number of respondents quickly. This method was suitable to use because SKS Automaatio already possessed a web-survey tool to be used.

#### 6.1.1 Main characteristics

According to Christina Hughes (2006) quantitative research consists of those studies that where the data can be analysed in terms of numbers. A survey can be a questionnaire or interview, but in both cases they are performed by a structured questionnaire where it is easy to analyse the results even though there is an enormous amount of data collected. Survey as a research strategy is meant to tell you why, how, where and when a customer is going to buy products. Hughes (2006) also claims that a survey has precision in the results and control through sampling and design. On the contrary the complexity of human experience, it is difficult to rule out all the variables. Still, a survey is a cost-effective way to gather information when the sample population is large.

Aligaga & Gunderson (2002) describes quantitative research as following:

Quantitative research is ‘Explaining phenomena by collecting numerical data that are analysed using mathematically based methods (in particular statistics).’

When explaining phenomena, the main objective for all researches is to find out why something is happening and what reasons there are for the phenomena. Quantitative research is also a way to find out about opinions, values and attitudes. The key part in collecting reasonable and understandable data for analysis is preparing the questions carefully. To be able to use mathematical methods the data has to be in a numerical form. The questions usually are expressed in a verbal form but the answers are gathered in a numerical form. Studying a certain phenomenon statistically the data must be measurable by different indicators. (Vehkalahti K, 2008)

---

The questions can be described as open-ended questions, close-ended and a mix on the previous ones. The open ended questions are left open for the respondent to describe the answer in his/her own words. The close-ended questions are pre-defined answers from which the most suitable can be chosen. It is also common to use a mix of the previous questions with multiple choices and with a field where the respondent can express an answer in his/her own words.

Vehkalahti (2008) mentions that the advantage of a web-survey is that it is not bound geometrically and can gather lots of data in a short period of time. The huge amount of data is quite easy to analyse with modern software and get quite an accurate view of the common opinion of a problem.

### 6.1.2 Data collection and reliability

Finch (2013) determines that there are four basic types of surveys that can be performed, mail, telephone, online or in-person. A 'hybrid' method can naturally also be performed of the previously mentioned types. Different factors determine which method to use. The most usual factors that determine which method or method to use are communication accessibility, length and depth of survey, sample size, timing and budget. Finch (2013) mentions that there are two types of errors that can influence the results, they are non-sampling errors and sampling errors. The non-sampling error can be a result of a poorly constructed questionnaire, low response rates, incomplete coverage of the market and weakness in processing. Sampling error is the process when you decide on what portion of your market should be surveyed and who and how many should be the target sample.

The reliability of the survey depends on various factors. Finch (2013) describes that the most general surveys today have a return rate of 2-10% and the known factors that affects the return rate:

- *Length of survey.* Never make the survey too long, people tend to get bored fast and might leave the survey undone.
- *Pre-notification/ Decent introduction.* When the respondent is alerted or decently introduce of the survey and the objectives, return rates go up.
- *Money, hand-outs, lottery.* By rewarding the respondent or even giving a chance to win a prize stimulates the survey to interesting.

- 
- *Follow-up and reminder.* Most of the respondents forget to answer the survey for common reasons and contacting them activates.
  - *Deadline.* When the respondent knows when the information is needed he won't leave it undone unless he is not interested.

---

## 7 RESEARCH EXECUTION

### 7.1 Customer panel

#### 7.1.1 Objective

A survey research is an important method in gathering information of a phenomenon, opinions, values and attitudes. This particular survey was executed in order to gather information about the customer's values, future plans and experiences. Customers can provide information on how the market will develop and turn out, at least their intentions and will. The other driving force is the world economy that affects investments, but that is not the goal to find out through this research as it is a way too complex phenomenon. Customers, in the end, are the ones who dictate the success of the suppliers and determine the success of the Finnish export industry.

#### 7.1.2 Selection of the participants

The customer panel is observing the research problem from a point of view where the customer's position in the company sets more value in the results of their procurement. As the range of SKS Automaatio Oy's customers from different industrial areas is so wide, the goal was to send out the survey to the whole customer database that currently exists. The survey was sent out to 2852 customers and the expected reach was 1000 answers for the results to be accurate and reliable. The customers could provide background information about themselves in such a way that the panel manager could filter the desired answers into groups.

The customer panel was included with the following criteria for the customers:

- Turnover of the company
- Employees in the company
- Occupation of the surveyed
- Respondent's responsibility of procurement

---

The survey was designed to be an open survey for users to participate without any specific registration or user credentials.

### 7.1.3 Motivating the customers to participate

As with all surveys the challenge is to get as high participation levels as possible. This survey was decided to be anonymous as the researcher did not want marketing threats intimidate the customer from answering. In the invitation letter (Appendix 1) it was also mentioned that the survey is anonymous and the results will strictly be used only for the thesis that the survey was executed for. Regarding this customer panel it was decided to include a draw between the participants that wanted, from their own will, to attend to the draw. As Finch (2013) points out that a money reward or a collateral prize can improve the return rate with 10-19%. Information about the draw was presented in the invitation letter (Appendix 1) as well. To keep the possibility of anonymous answering an additional link was added at the end of the survey where it was possible to attend to the drawing if wanted.

### 7.1.4 Forming of the questions

The questions for the customer panel were formed first together with the product group manager bearing in mind what areas needs to be improved in the company's procurement strategy. Secondly the questions were reformed together with the CEO in order to understand what kind of impact the customer's opinions and values has on creating the procurement strategy. The questions were formed in Finnish as the customer base is domestic and no language barrier was wanted to affect the response rates.

The questionnaire (Appendix 2) was formed in a way that the respondents will first answer what are the qualities that he appreciates in his current suppliers and does the current suppliers fulfil their expectations and what qualities they would like to improve. These questions were answered by choosing the 3 most important qualities from a list.

The second part of the survey focused on the experience and attitude towards components manufactured in CC-countries and procurement intention from CC-countries.

---

The third part of the survey was to find out the future procurement strategy of the organization the surveyed was working for. The survey presented eight statements for which the answer had to be made using the Likert scale. The 5-point scale that was chosen for this research was “Completely agree” and on the contrary “Completely disagree”. In the middle there was the option “neither agree nor disagree”.

The respondents in the survey were asked to answer their degree of agreement according to the Likert scale to the following hypothesis:

- Outsourcing procurement
- Centralize and reduce suppliers
- Strengthen partnerships
- European components
- Low-cost components
- Value in Finnish importers
- Value in Finnish warehouses
- Value in high quality components

Finally the respondents were asked to fill in their background information to make it understandable what kind of differences there would be in the opinions depending on the occupation and the size of the company. The size of the company has a very important impact as it tells the researcher whether the respondent might be a key-customer or a minor customer.

#### 7.1.5 Digium Enterprise

According to Gingery (2011) online methods for market research has skyrocketed during the past decade. The advantages of an online survey are literally a fraction of time and cost what they used to be. This particular research was executed through Digium Enterprise web tool that was provided by SKS Group as a part for this research. Digium is being used by over 5000 organizations worldwide. Digium offers organizations tools for market measuring and customer feedback control. The questionnaire was created by the researcher of this thesis but the survey was executed by the marketing department of SKS Group. The decision to use Digium was because it could be provided by the organization and there was access to a professional team to create the survey with very low resources in a short period of time. Also the knowledge in collecting the results had an impact in choosing Digium. In addition it was possible to make the survey anonymous and still collect contact information from those who wanted to participate in the drawing.

---

### 7.1.6 Customer survey

The customer panel survey in Digium Enterprise was set to be open for the respondents for two weeks starting from 8<sup>th</sup> of January 2013 until the 22<sup>nd</sup> of January and was sent out to about 2852 customer email addresses. During the first check-up on results, after 3 days since the survey opened, there was already over 300 answers collected. After one week on the 15<sup>th</sup> of January a reminder was sent to all of the respondents that had not yet answered in order raise the amount of answers. The reminder also refreshed the memory for the respondent when the deadline was set. The customer panel survey was closed on the 22<sup>nd</sup> of January with 662 answers. Since the expected amount of answers was 1000, the final response rate was 66%.

### 7.1.7 Analysis of customer survey results

The results from the customer survey panel was extracted and analysed during the weeks 14 and 15 of 2013. The gathered data was saved and processed with tools in Digium and saved in format for the panel manager to be easily used for analysing. The results were presented in graphs and tables and since the usual way in quantitative research is by explaining approach, it is extremely important that the results are understandable for the reader.

## 8 FINDINGS AND OUTCOMES

### 8.1 Customer survey results – Suppliers

The first section of the customer survey was to try to figure out what qualities the respondent appreciates in a supplier and what qualities he would like to improve. The total number of respondents was 662 people.

#### 8.1.1 Appreciation of supplier qualities

The first question in the survey was presented to the respondent in a way that he had to choose the three most valuable qualities in a supplier. From the respondents 62% chose technical knowledge, 69% quality and 58% reliability of deliveries as the most appreciated qualities. The following 39% chose price as an important value and 27% fast deliveries. A clear minority was multidisciplinary with 5%, supplier activeness with 10%, brand awareness 14% and availability with 17%. The results can be observed in Figure 11.

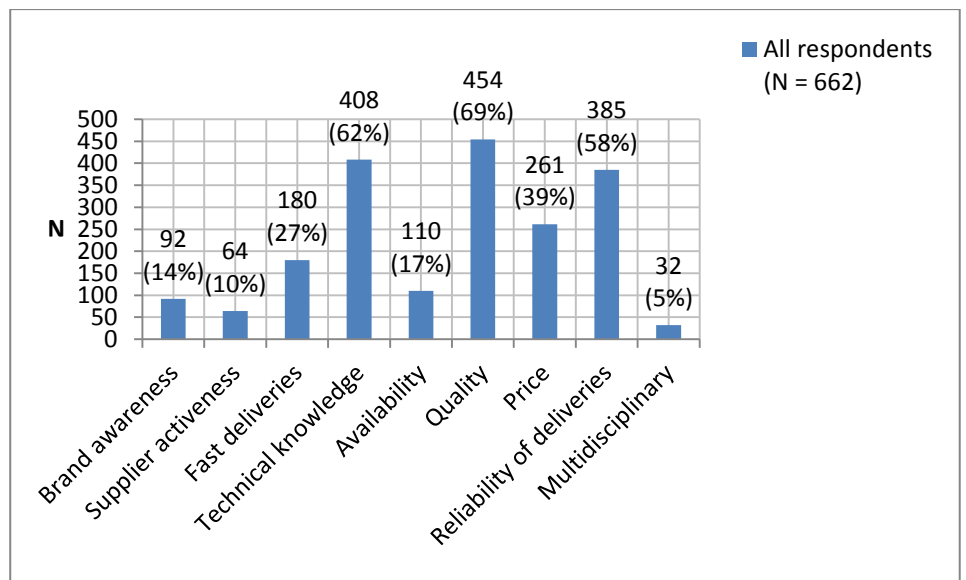


Figure 11 Appreciated qualities

The reason why the three overpowering qualities showed up is quite understandable. As the machine building industry in Finland is clearly an export business and the machines are very expensive investments the customers manufacturing process is depending on the supply chain and the suppliers.



---

The reason for quality products being the most important quality in a supplier is because if a cheap quality component breaks and the whole machine stops and has to be serviced it will cost a lot of money compared to the price of that single component that broke down.

The reason for technical knowledge being the second most important quality would be because the importer or supplier has the best contacts to the manufacturer and thus should have the knowledge to help the customer find technical solutions. It also saves time and money if the customer can get technical advice in their own language quickly. Customer service also improves with this quality held in mind.

The reason for the third quality being reliability of deliveries is obvious. Building a big industrial machine and having many suppliers, every step of the production has to be scheduled according to the lead time of the supply chain. If one crucial component is delayed it could create costs and reliability issues for the end-customer and in worst case bring penalty fees for delayed deliveries. As the chart displays fast deliveries is not important, deliveries being on time is more crucial.

The reason why price is somewhere in the middle of the chart can be concluded that even though it is not the most important aspect for the production there still has to be competition in the market and options to choose from. The end-customer also has price pressure from the competitors and component changing is one way to save money.

The minority qualities are obvious, except for brand awareness. As we all know, consumers are very depending on brands but this survey proves that in the industrial environment, brand awareness has a very small effect on the procurement in the end.

### 8.1.2 Current suppliers fulfil expectations

The next question was to figure out how the respondent thinks their current suppliers fulfil their expectations. The overpowering answer with 85% was 'Pretty well' and 13% with 'Well'. No one answered 'Badly' and 2% answered 'Pretty badly'. The chart is displayed in Figure 12.

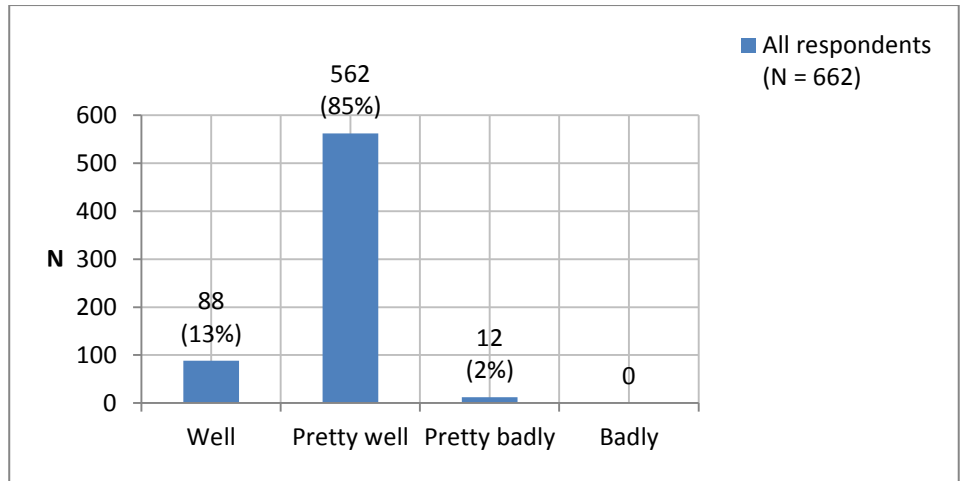


Figure 12 Current expectations fulfilled

The reason for almost every answer to be the same could be for two reasons. First, it could be a psychological issue, the structure of the question can be too hard to understand and interpret into the reality as the easiest answer is the one in the middle and on the positive side. Second reason could be that the customers really are mostly satisfied with their current suppliers thus there is always a possibility for improvement to fulfilling the expectations 'Well'.

### 8.1.3 Current suppliers quality improvements

The third question regarding suppliers was a follow-up to the first and second question. The respondent was asked what qualities he would like to improve in his current suppliers and asked again to choose the three most valuable qualities which he would like to improve. The answers were way more shattered than in the first question and there were four qualities that overcame the other options. Technical knowledge got 47%, price 48%, reliability of deliveries 47% and fast deliveries 44% of the respondent choices. The minority of the options was 13% for brand awareness, 29% for supplier activeness, 26% for availability, 29% for quality and 17% for multidisciplinary.

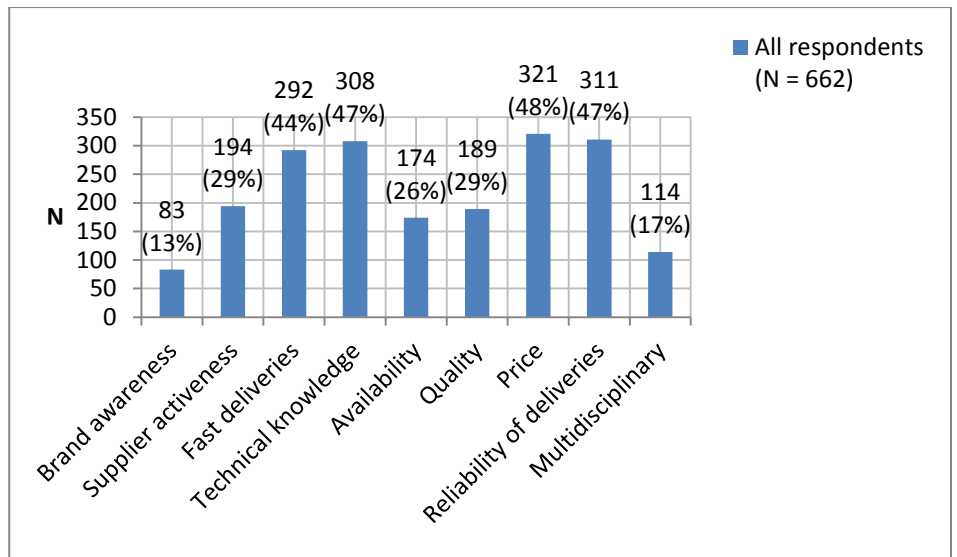


Figure 13 Current suppliers quality improvements

The reason for the shattered results is probably because the responses in the first question no longer need improvement and that's why they are shattered on the other qualities as they are the ones that need improvement. Conclusion can also be made by combining the first two questions as the three most valued qualities are fulfilled by the suppliers 'Pretty well'.

Price for example was the fourth most popular in the first question but when the most valuable qualities are in place, then price is naturally the next step for improvement. It seems that quality for the products are in place and needs no improvement it only must be held on the same level. Technical knowledge and reliability of deliveries are the most appreciated qualities and the customers hope for improvement in those areas. Once again the two minorities, brand awareness and multidisciplinary, can be concluded to not have value to the customer.

Supplier activeness and availability does not have much value either for the customer. The results show that for some they have value but the majority values other qualities more important.

#### 8.1.4 Why improve qualities

This question was presented as an open-end question where the respondent could answer with his own words. The idea was to try to possibly find out the reasons for improvement or defects the customers have in supplier qualities. Also the follow-up question was if the improvement would bring more

---

value to their business model or would it support their objectives in some way.

The analysis of the open questions supports the chart in Figure 13. Technical knowledge, reliability of deliveries, fast deliveries and price were the most qualities mentioned in the answers. The following reasons were given for the qualities:

Reliability of deliveries:

- No possibility for own stock
- Supports supply chain reliability
- Supports customer relations
- Crucial to project and production schedules
- Supports foresight

Technical knowledge:

- Technical support is valuable
- Helps finding new solutions
- Reduction in time and resources

Fast deliveries:

- Critical phase in production
- Spare parts in maintenance
- Solutions in problematic situations
- Gives support in end-customer sales

Price:

- End-customers decision

Quality:

- Cost-savings in service
- Added value in reliability and trust
- Longer maintenance cycle

Multidisciplinary:

- Reduces amount of deliveries and placed orders

Activeness:

- Supports awareness of new solutions and technology

Answers for the follow-up questions was very positive and the most common reasons was that by improving the mentioned qualities will have a positive impact on supporting the customers objectives. Some could get added value to their operations and would give ease to end-customer pressure.

The reasons for the shattered results in Figure 13 compared to Figure 12 came up in this question. It was mostly depending also because of the different areas of industry the respondents were involved with. For example designers are more focused

---

on quality, purchasing on price and managers on reliability of deliveries. Furthermore the majority pointed out the same most important qualities without having dependence of the industry. These qualities should be taken seriously in planning the company strategy.

#### 8.1.5 Future objectives in procurement

The next question was again an open-ended question where the respondent could answer in his/her own words about what their future objectives are in procurement. Based on the analysis the amount of countable answers was 315. The majority in future objectives was centralization of procurement with 25% and improving price/quality-ratio 25%. The following objectives was improvement in quality 13%, improvement in reliability of deliveries 11%, need for fast deliveries 6% and optimization of stock 3%. The minority objectives were such as developing partnerships, sub-contracting, procurement from web-shops and focusing on brand products or products manufactured in Finland.

It can be clearly concluded that the trend for the future is to cut down prices as half of the respondents answered that as an objective. The difference between the two majority objectives is only presented in a different manner. Centralization, where suppliers are reduced, is an indirect way of saving in procurement costs but a more realistic and more open-minded solution. The other objective, which is to cut down prices but keep the quality, is and has always been the main objective for the purchasers and the objective can rarely be reached without a plan how to reach the cost saving. So basically the majority respondents have the same objective whence the other half has got a plan how to reach the goal but the other only has the objective but no plan.

The objective in quality improvement could also be a price related issue as there are low-cost products flowing from China, India and other growing markets where quality is not the strongest value. Improving quality could relate that the low-quality components have been noticed to bring more costs in the long run than the saving made in the purchase situation. This issue will be dealt with in section 2 of the questionnaire.

The objective with fast deliveries and reliability of deliveries are surprisingly low sustained in future procurement objectives as they were pointed out as very important qualities in the first two questions. The objectives should be noted even

so, as they are very important qualities regarding the reputation and trust for the customer.

## 8.2 Customer survey results - Component procurement

The objective of the second section of the questionnaire was to find out if it matters in what country the product is being manufactured. The questions were related to the experience in procuring from competitive cost (CC)-country products and what kind of products/services they are intending to get from CC-countries.

### 8.2.1 Manufacturing country

The first question in section 2 was to find out if the manufacturing country (any country) of the product has an affect their purchase decision. Here 59% thought it does make a difference where it is manufactured and 41% didn't have an issue with the origin. The chart is displayed in Figure 14. The follow-up question was with an open answer for the respondent to explain why the country of manufacturing affects their decision.

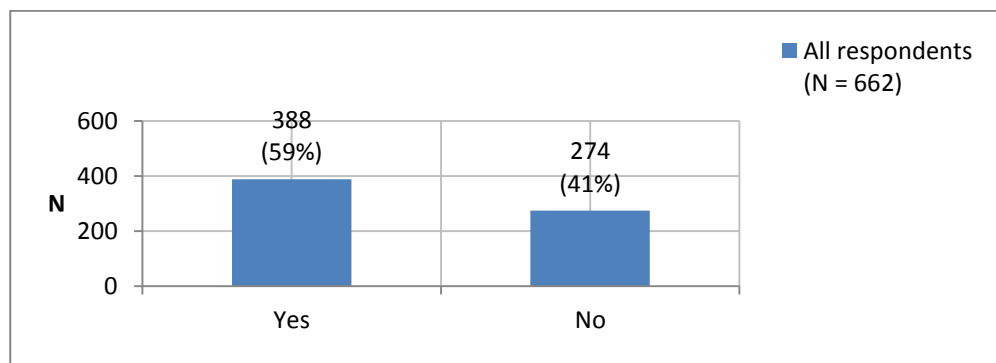


Figure 14 Manufacturing country

The analysis for this question was very difficult as the answers were very different from each and other. There was one mutual reason for the majority of the answers and that was quality related issues.

The issues for the respondents whose decision is affected in a negative manner by the country of manufacture named the following reasons:

- prejudice of quality
- quality risks

- 
- delivery reliability and delivery times
  - defects in ethical values
  - lack of technical support
  - end-customer decisions
  - different business culture
  - safety issues
  - support domestic industry
  - possibility of child labor
  - guarantee issues
  - difficulties for customization

The positive reasons for the affection of the manufacturing country were following:

- if quality proved decent, then no affect
- price benefits
- knowledge of product origin is common
- global manufacturers and brands
- if certifications exist, then no affect
- local procurement (abroad)

The reasons for the majority of the respondents having issues with the manufacturing country were obvious, the experience in Chinese products and the image that has been built around Chinese products was easily detected even though the question was formed to relate with any country. The China-syndrome is a current megatrend and the affect was clearly visible from the results for this question. The fear of low-quality products and unreliable deliveries is not worth the risk that involves the reputation and image of the products/machines the customer manufactures. Products made in Finland are known for high quality and many want to support the Finnish industry and keep the money domestic. EU-countries also have a good reputation and reliability in quality products.

On the contrary there were also a lot of positive reasons such as many organizations operate on a global level and needs to procure from local manufacturers. A reason also was approved if the component is a known brand then usually the quality management is reasonable and then the origin does not make an impact. Some products don't need to be high quality and then the price is in a dominant position to affect the decision making above the product origin. There was one really good answer as an example:

*“Japanese products in the 50’s was toy-like, now they are a guarantee of quality. Same will go with the Chinese products. This generation will keep them still unsecure but the next gen-*

*eration will probably assume that products made in China are high quality.”*

As a conclusion, companies operating on a global level have a lower barrier on where the products has been manufactured and has probably a more advanced sourcing department that knows how to separate the bad-quality products from the decent ones. Companies operating in Finland is usually depending on the products that are imported by a third party and are thus not in control of the quality control, except for the products that are chosen by the importer. In a small country such as Finland, rumors and bad experiences spread quickly between companies and therefore creates mind images of bad quality for all products made in some specific country. As China has developed through the last decades there definitely are high quality products available but then again they are not as competitive anymore pricewise and long lead times eliminate the opportunities for importing unless the importer possesses excellent stocks and logistics for reliable deliveries.

### 8.2.2 Experience in CC-countries

This next question asked the respondent if he/she had experience in CC-country components from eg. China, India. The results were that 60% had experience and 40% did not have any experience, as can be seen in Figure 15. The follow-up question was what kind of experience they have had and with an open answer possibility.

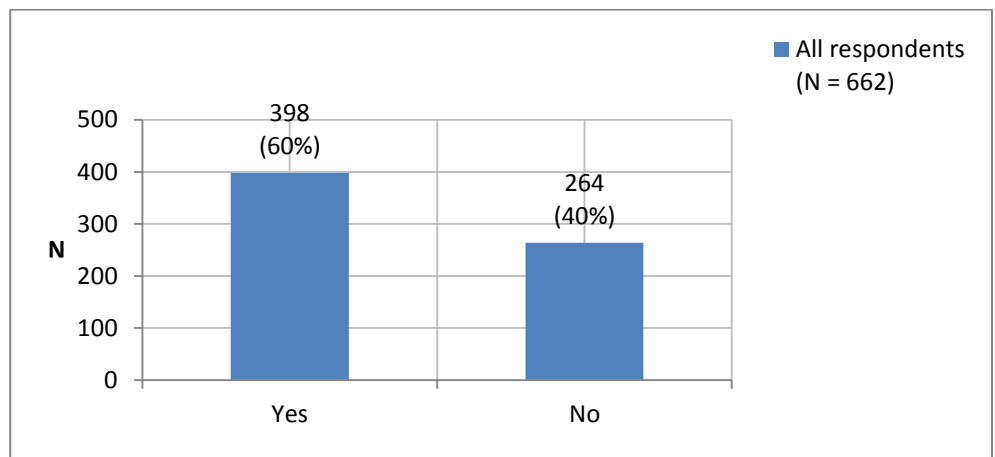


Figure 15 Experience in CC-country components

Again, as in question 7.2.1, the main topic analyzed from the open answers was quality related. As only 60% had had experience in CC-country components the analysis was not so time consuming but still gave an obvious view of the trend. The answers were picked up in two categories, the positive



---

and the negative. The topics were repeatedly answered so below is the main experiences from procuring from CC-countries:

Positive:

- Products good if a known brand
- Price advantage
- Local products for local manufacturing
- Quality products if good quality control
- Fast deliveries
- Good service
- Good products if right agents
- Huge selection of products

Negative:

- Risks in support and continuity
- Poor quality
- Unreliable approvals and certificates
- Unreliable datasheets
- Difficulties in importing to EU
- Cost losses because of quality failures
- Wide variation in quality
- Unreliable deliveries
- Long delivery times

During the analysis of the results for this question revealed the current trend for procuring from CC-countries. Most of the answers were related to quality but not only negative but there was an equal amount of both high quality and low quality experiences. Very often for the customers that thought the quality was good mentioned that in order to get the good products from CC-countries was to maintain an effective and precise quality control. China was the main country that was mentioned in the answers and as the China phenomena is noticed the development through the last decade has brought up the quality in the manufacturing. The customers that have bad experiences didn't have good quality control or an experienced agent to find the right supplier and therefore got the weaker products that can be found from the wide selection.

The conclusion can be made that in order to procure from CC-countries there must definitely be high class quality control, years of experience in the market, working logistics for time and reliability, warehouse optimization and availability for technical support. Large organizations operating locally in the CC-countries do have the resources to arrange all of this within their operations and as Tom Seal (2011) stated Localization to be a megatrend which some companies have already reacted to. Smaller companies in Finland are depending to have or find the right partner who has the experience and can

manage the importing of the right products on time to the customer.

### 8.2.3 Needs from CC-countries

The last question in this section dealt with what kind of components or services the respondent organization would be procuring from CC-countries if they do have intentions to this. The majority 52% has intentions to procure single passive components from CC-countries. Single active components will be procured by 16% and also some sub-assembly by 16%. Services will be focused on by 2% and complete system deliveries by 4%. The last option with 11% was ‘Something else, what?’ and was with an open answer to find out what else could be procured from the CC-countries.

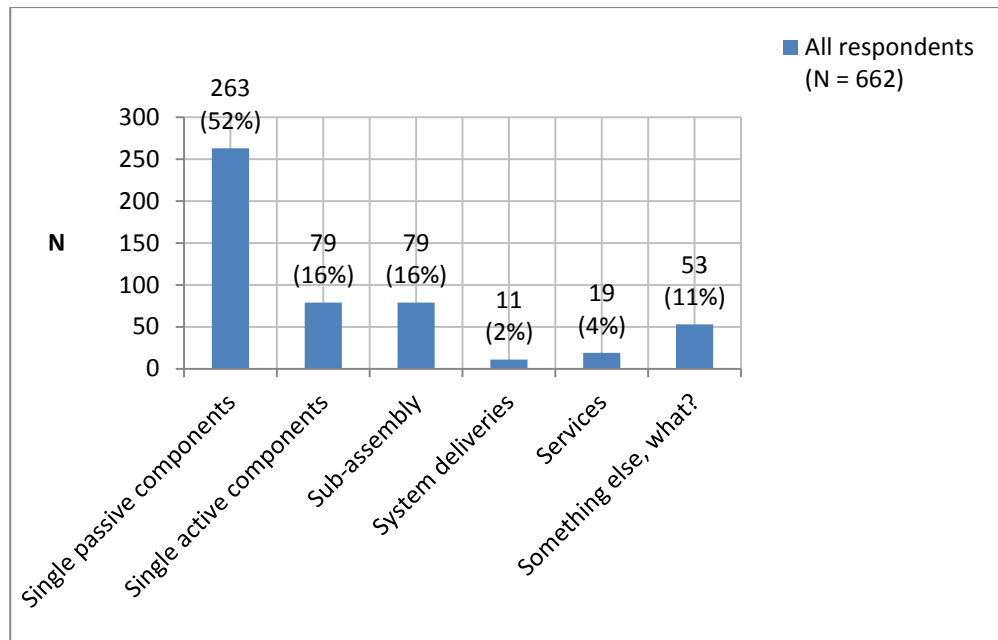


Figure 16 Intentions for procurement from CC-countries

The reason for the majority for the results can be concluded for all of the results from the previous questions. The customers don't have the trust for the know-how in the CC-countries that is needed for manufacturing more complex products than mass produced passive components. It is obvious that the customers are aiming for price competitive products but need a good partner for importing and quality control. The reason for the rest of the answers divided between the more advanced products is probably the companies that already have good experience in passive components and are ready to take the next step in sourcing from the CC-countries.

---

The answers for ‘Something else, what?’ were mostly “Nothing” but a few had answered different products than were listed such as:

- All of the above
- Mechanical components
- Some of the above
- Designing
- Currently creating a strategy
- Machining service

### 8.3 Customer survey results - Procurement strategy

The objective for the third section was to find out what is the customers future procurement strategy. The question was presented for the respondent to choose from a pre-made list of statements how much it corresponded to their future strategy. Respondent were to answer by using the Likert scale.

The statements that the respondent was to take a stance on were based on the Likert-scale beginning from ‘Completely agree’ to ‘Completely disagree’ and neutral answer in between. The results are displayed in Figure 17. The total amount of respondents was 662 people.

#### 8.3.1 Organizations future procurement strategy

##### **‘We are planning on outsourcing our procurement’**

The results for the first statement were following:

Completely agree	0%
Slightly agree	2%
Neither agree nor disagree	17%
Slightly disagree	24%
Completely disagree	56%

The reason for this is that the sourcing still is a part of the know-how for most of the Finnish businesses. According to the results some might outsource partially some meaningless components procurement for example to their sub-contractors but still mainly keep the procurement within the organization.

##### **‘We will centralize our procurement and reduce suppliers’**

---

The next dealt with the statement above.

Completely agree	20%
Slightly agree	53%
Neither agree nor disagree	16%
Slightly disagree	8%
Completely disagree	2%

The trend can be concluded from the results. Companies will and already have started to centralize procurement by reducing suppliers and save time and money by procuring as much as possible from one supplier instead of maintaining many different suppliers. Maintaining suppliers in the system is expensive and also through centralizing they will save money in freight costs when as much products are combined in the same shipment. The reason why it is not completely agreed is probably not to give too much power of sales to one supplier but still to keep competition in the market and it is always a good decision to keep a few back-up suppliers.

**‘We will strengthen our partnerships’**

Next up was the statement about partnerships.

Completely agree	24%
Slightly agree	62%
Neither agree nor disagree	12%
Slightly disagree	2%
Completely disagree	1%

This statement actually relates pretty much with the previous one. The results are quite the same, when starting centralization and reducing suppliers, the natural development is to strengthen and work on improving partnerships.

**‘We will focus on components manufactured in Europe’**

This statement was presented, bounded in mind with the following statement, if the customer will focus on quality components or low-cost components. First results are for the statement above.

Completely agree	8%
Slightly agree	37%
Neither agree nor disagree	45%
Slightly disagree	8%
Completely disagree	1%

The reason for the results already came up in the previous questions and the results were divided into two groups. Those who do not favour low-cost because of quality issues tend to

---

favour European components. Still the majority is on the neutral zone so they do have intention in procuring outside of Europe and possibly from the CC-countries.

**‘We will focus primarily on low-cost components’**

The next results are regarding the statement above.

Completely agree	2%
Slightly agree	16%
Neither agree nor disagree	30%
Slightly disagree	38%
Completely disagree	14%

Yet again as this statement was related to the last statement and the majority are the ones who had good experiences from CC-country components. The result indicates that the respondents are not completely denying their intentions on procuring low-cost components but are still slightly open for these types of components even though it is not their primary objective.

**‘Finnish importers bring value to our company’**

The next statement was present in order to find out if the local importer has value to the company as it did not come clear directly in the last questions results..

Completely agree	33%
Slightly agree	47%
Neither agree nor disagree	13%
Slightly disagree	6%
Completely disagree	1%

Through this statement it is obvious that the companies have a high value in a local importer that can handle the logistics and quality control. Technical support in the local language is highly valued.

**‘Finnish warehousing brings value to our company’**

This statement can again be bound with the previous statement as an addition to find out if it gives additional value if the importer has a possibility for warehousing and thus reduce the lead times.

Completely agree	36%
Slightly agree	45%
Neither agree nor disagree	12%
Slightly disagree	5%
Completely disagree	1%

The results indicate that in addition to the value of local importers, the possibility of keeping the products in stock for the customer brings additional value.

### **‘We value high quality in components’**

The last statement was just to make sure if the main matter is quality.

Completely agree	75%
Slightly agree	24%
Neither agree nor disagree	1%
Slightly disagree	0%
Completely disagree	0%

The results are clearly displaying that quality has a very strong impact in the future procurement of the respondents companies.

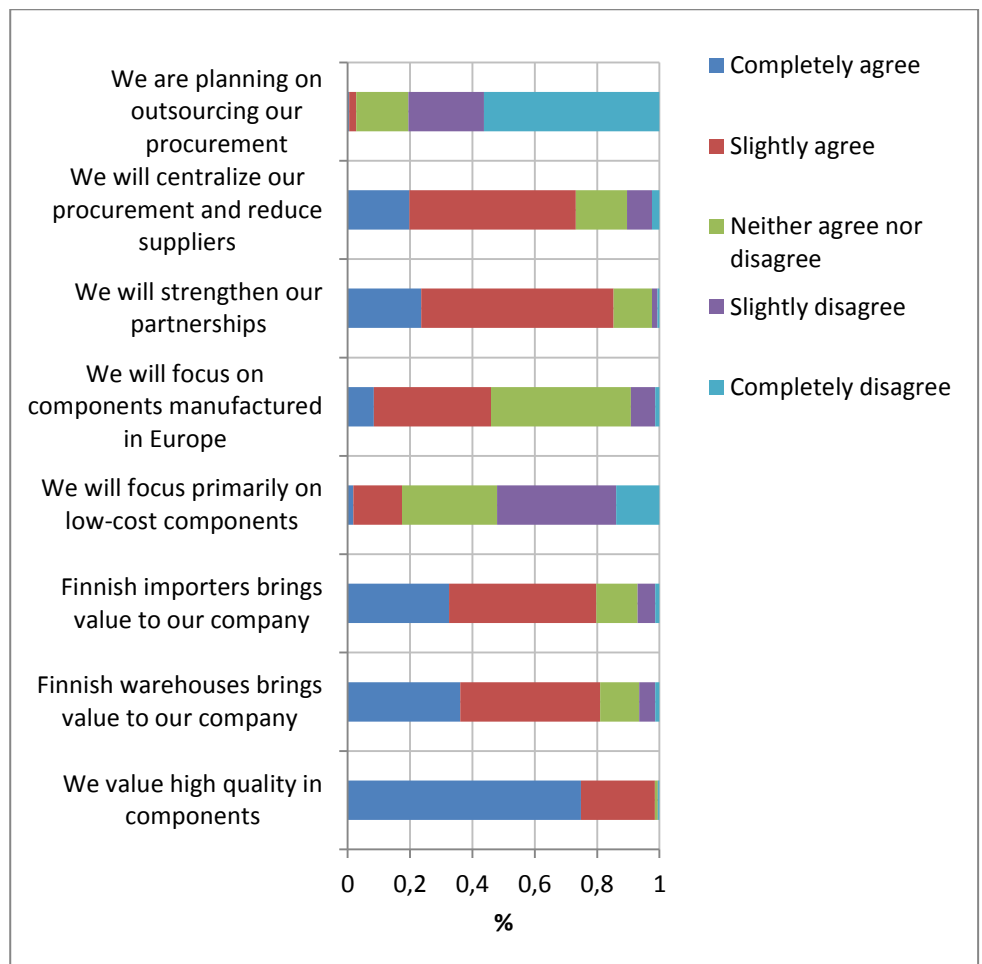


Figure 17 Future procurement strategy

## 8.4 Customer survey results - Background information

The objective for the fourth and last section was to find out from what sized companies the respondents was by measuring the amount of employees and turnover. Occupation was also asked to understand from what kind of positions and if the respondents have a responsibility in their company's procurement.

### 8.4.1 Employees

The objective for knowing the employees that work in the respondent's organisation usually gives a picture on what kind of a company it is. The idea was to see if the answers came mostly from potential and existing key customers or from small and middle sized companies. Out of 662 respondents 166 were from over 1000 employee companies, 72 were from 500-1000 employee companies, 64 from 250-500 employee companies, 89 from 100-250 employee companies, 62 from 50-100 employee companies, 121 from 10-50 employee companies and 88 from small companies with less than 10 employees. The results are displayed in Figure 18.

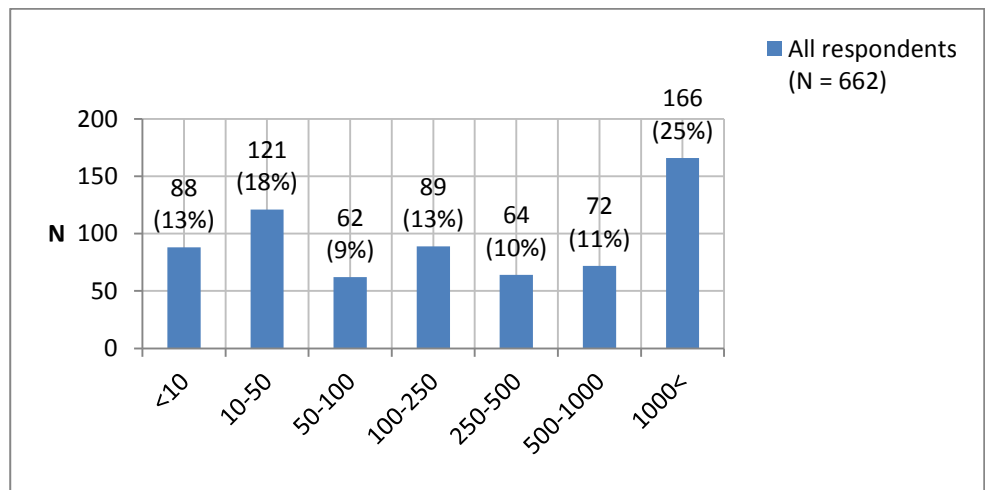


Figure 18 Respondents organization size

According to the results it can be concluded that the majority is from large companies and therefore this survey has reached the key-customers.

#### 8.4.2 Turnover

In addition to the last question was to confirm the wanted objective by knowing also the turnover. The results are in Figure 19.

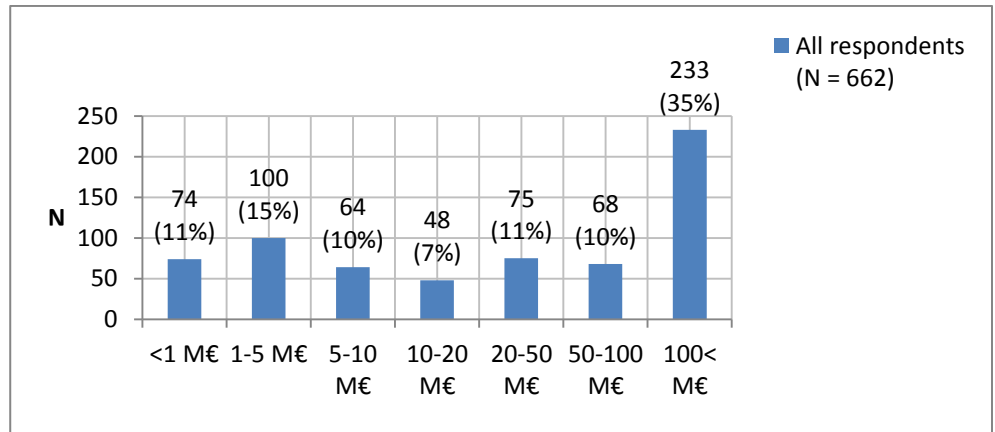


Figure 19 Turnover

The majority of the respondents work in a company that has the turnover over 100 million euros and the large companies are the ones that are the potential key-customers as they usually have a lot of procurement. The results support the conclusion in the last section.

#### 8.4.3 Occupation

The purpose for this question was to find out how the answers were divided by different positions within organisations. The following positioned employees answered the survey:

<u>Occupation</u>	<u>People</u>
CEO/Manager	159
Design	123
Supervisor	81
Project	61
Purchasing	59
Service & Maintenance	54
Sales	42
Engineer	31
Specialist	24
Electrician	23
Teacher	19
Research & Development	19
Entrepreneur	15



Technical sales	14
Production	6
Product manager	5
Mechanics	4
Finance	1
Inspector	1
Marketing	1
Quality control	1

The results are very good as the target groups for a sales company in the machine building industry are the top 6 of the list. The most important thing about these result is that on the top is the managers and CEO's who have a better vision of strategies and definitely be more favourable when presenting a procurement strategy that can benefit their operations.

#### 8.4.4 Procurement responsibility

The objective for this question was to find out how many of the respondents are responsible for procurement in the organization. Still the only target group is not only the purchasers but also the managers and CEO's that are responsible for the company strategy and objectives. The results in Figure 20 shows that 452 people are responsible for the procurement and 210 have responsibilities in other areas.

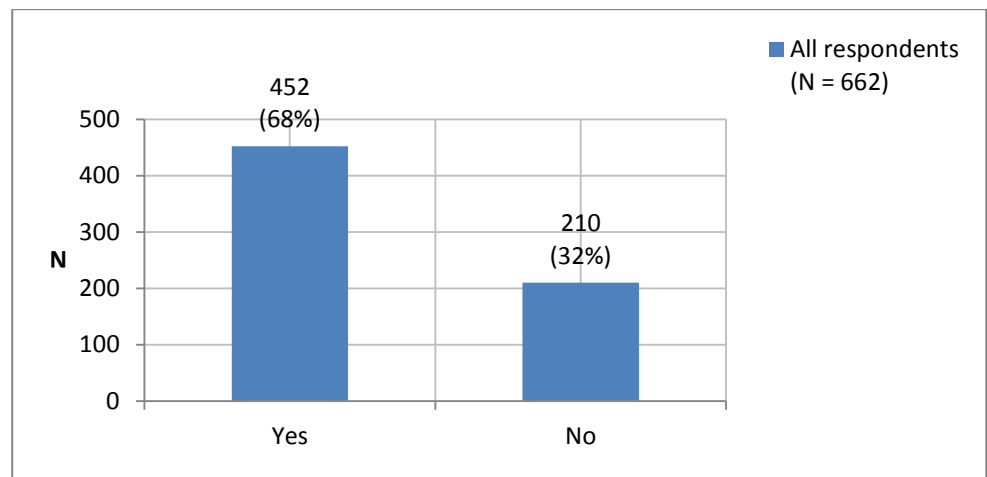


Figure 20 Responsible for procurement

#### 8.4.5 Participation in drawing

The survey was presented with a possibility to win a prize for answering to the survey. The drawing had a link that led to a

separate page where the respondent could leave his contact details for the drawing. The prize was an Ipad 2 that was worth about 500€. The amount of respondents attending the drawing was 629 people out of 662. After the drawing was executed and the winner informed about his lucky day a letter was sent to all of the respondents with a thanking for attending the survey and informing who had won in the drawing, with the permission of the winner. It can definitely be concluded that a remarkably worth prize do have an effect on the response rate at it was 66% of the expected 1000 answers.

## 8.5 Cross-references

When considering if there were some differences in the results based on the size of the company the conclusion could be made from the charts from Digium. There were no significant variations in the results depending whether the respondent was employed in a small company or a big company. Figure 21 shows with green coloured cells what all of the respondent value most in their supplier. The yellow cells are the most valued qualities depending of the size of the respondents company. The respondents had to choose the three most important qualities.

	Brand awareness	Supplier activeness	Fast deliveries	Technical knowledge	Availability	Quality	Price	Reliability of deliveries	Multidisciplinary
All respondents (N = 662)	92 (14%)	64 (10%)	180 (27%)	408 (62%)	110 (17%)	454 (69%)	261 (39%)	385 (58%)	32 (5%)
<1 M€ (N = 74)	13 (2%)	6 (1%)	18 (3%)	55 (8%)	12 (2%)	46 (7%)	29 (4%)	33 (5%)	10 (2%)
1-5 M€ (N = 100)	15 (2%)	7 (1%)	26 (4%)	55 (8%)	14 (2%)	69 (10%)	48 (7%)	60 (9%)	6 (1%)
5-10 M€ (N = 64)	9 (1%)	6 (1%)	18 (3%)	35 (5%)	17 (3%)	37 (6%)	28 (4%)	40 (6%)	2 (0%)
10-20 M€ (N = 48)	8 (1%)	3 (0%)	15 (2%)	27 (4%)	8 (1%)	32 (5%)	21 (3%)	27 (4%)	3 (0%)
20-50 M€ (N = 75)	11 (2%)	7 (1%)	15 (2%)	44 (7%)	16 (2%)	56 (8%)	24 (4%)	49 (7%)	3 (0%)
50-100 M€ (N = 68)	11 (2%)	9 (1%)	17 (3%)	39 (6%)	11 (2%)	49 (7%)	24 (4%)	39 (6%)	5 (1%)
100< M€ (N = 233)	25 (4%)	26 (4%)	71 (11%)	153 (23%)	32 (5%)	165 (25%)	87 (13%)	137 (21%)	3 (0%)

Figure 21 Cross reference table

---

The reason that the results do not vary could probably be because the machine building industry is homogeny and the same qualities reflect the importance in the industry. The industry's majority, about 83% of the production is exported abroad so the pressure is more in on time deliveries than in price. Technical knowledge saves the customer time in solution finding and quality components are crucial when machines are exported around the world to harsh conditions, guarantee service is very expensive and low-quality components break more easily.

---

## 9 DISCUSSION

### 9.1 Importance of the research

The main goal of the research was to investigate the needs, values, intentions and the driving forces of the current customer base in the Finnish machine building industry. The importance of the research is linked to the strategy renewal of SKS Automaatio Oy that is currently been reformed by the managers. The procurement process was given as a subject for the author to research as a part of his thesis. The research is important in understanding the customer's needs and to help in completing the company's strategy as a whole.

### 9.2 Answers to research questions

Looking back at the research as a whole and trying to identify if the research results and outcomes respond to the research questions that were presented in the beginning of the thesis process. The main goal of the research questions was to 1) investigate what the customer values in a supplier, 2) identify the primary factors in choosing a new supplier, and 3) to figure out what is the best way to monitor the performance of suppliers.

The investigation on what the customer values in a supplier was executed through a market survey online. The results were better than expected and gave the author a deeper and wider vision on what and how the customers will procure. The final results can be used in the future process for creating the business strategy but not for marketing purposes as the author mentioned in the invitation letter.

The factors that affect the choosing of a new supplier were primarily investigated through existing literature, articles and statistics. It was necessary to investigate the operating environment, supply chain management and what strategic management tools can be used to help choosing the right suppliers. Since the author has years of experience in the industry and company habits, it was quite easy to pick out the right analyzing tools that will be helpful in the future.

In the third question it was obvious already in the beginning that KPI's are the tools or indicators that will be used to monitor the performance of the suppliers. The research though taught that the monitoring should be performed by an assembled team from within the organization as they have the best knowledge of the suppliers.

---

### 9.3 Reliability and validity of research

In every research it is important to try to come out with a reliable and a valid research result. The reliability can be defined how consistent the results are when the survey is repeated a number of times under the same conditions and the results match each other. The validity can be stated as when the obtained results are believable and truthful.

In this particular research the questions was easy to create for the customers as the objectives was known but the outcome was to be found out. The research was carried out on schedule and effectively through the Digium Enterprise web survey. Even though the survey was conducted only once the response rates were respectably high and therefore the reliability can be concluded that the objective was reached and the results reliable.

When evaluating the validity of the research findings it is necessary to point out limitations of the study. The results needed some cross-tabling and they were looked into. The cross-tabling did not give any differences or new points of view in the results as expected thus this made the results even more valid because of the similarity in the cross-tabled categories results.

The only problem the author thinks came up was the fact that the impression was that some of the customers thought the survey was only about SKS Automaatio's products and services as they were supposed to cover all suppliers products and services in general. Nevertheless this does not have an effect on the outcome on the results as the questions were formed for future plans, past experiences and appreciations in values and therefore does not make a difference in who the suppliers are at the moment.

### 9.4 Added value for strategy development

It already has been proven earlier in the research that the procurement process has a real added value as the client of this survey is lacking a decent and written procurement strategy but have until now, operated on many years of experience in procurement. Even though SKS Group is the leading company amongst the importing businesses within the machine building industry there is a huge potential to acquire market shares only by developing the services and gain reputation as a reliable supplier and most of all, as a partner.

---

The author hopes to have created a procurement strategy that will improve the competitive status of his employee and therefore develop and strengthen the competitiveness for the Finnish export business through the end-customers. The author also hopes the improvement in strategy will raise the motivation of his colleagues as the procurement strategy cannot be done by one individual but need the whole staff to commit to the task at hand. Hopefully the suppliers of the client also will see this strategy as an added value when having a more organized system to present which also can, through the KPI's, improve their operations.

## 9.5 Further research possibilities

Certainly there are indefinite possibilities for further research. For further studies the same customer base should be conducted a new and more focused survey that will help develop the procurement process. However, to be able to conduct a new survey, the procurement process should be prepared and integrated into the company's strategy before investigating more deeply about the customer's future plans. As the survey for this research was executed with a quantitative approach the next step is to conduct a qualitative approach to the key customers. Qualitative research through interviewing key persons among the customers will give very valuable information and could possibly lead to deeper co-operations as the customer realizes that their supplier is truly interested in the future of their operations as they no longer stay anonymous respondents.

Further research topics could be related to the situation and status of the competitors of SKS Automaatio Oy in what are their strengths and benefits within the eye of the customer. This research has given the basic idea of what qualities the customer appreciates in a supplier but it is only a scratch on the surface. Questions the author generates immediately are: "How do the competitors handle delivery reliability? What are their quality standards and do they satisfy their customers? How do the competitors monitor their suppliers and does it bring added value to the end-customer?"

By understanding the possible strengths of the competitors and combining or comparing that with the own strong qualities could help to develop a strong situation within the market.

---

## 10 CONTRIBUTION

Considering the results that were presented in chapter 7 it can be concluded to have a good basis on to proceed and create a procurement strategy and a monitoring model for the client company in general. Before proceeding to presenting any suggestions, some other significant factors should be pointed out to see whether the results of the research are in line with the research questions. The survey had excellent response rates and the open-ended questions brought depth to the results and gave a deeper understanding of the reasons behind the answers.

### 10.1 Strategic procurement

Based on the research results and the theories that were identified it is possible to analyse what kind of qualities the customers value in a supplier and what are the demands in choosing a supplier. However, it is important to understand that there are a lot of competitors in the market with years of experience in importing products and providing services.

SKS Automaatio Oy should focus on importing high quality products from the EU-region for the Finnish customers as it has been concluded from the results of the survey. Delivery times and reliability of deliveries are in a key role for satisfying and gaining the trust of the customers and therefore should be invested in with serious thought. Technical support and knowledge of the maintained and sold products should be at a high level in order to serve the customer in the best way possible.

Operations in China should be more focused on as a quality control and logistics service for Finnish customers. The effort and time consumed on working as an agent has already been proven to be a waste of time as the products qualities vary and there is no certainty of the need in the Finnish market for Chinese components. The key-customers who do want to procure from China needs a trustworthy partner to keep the supply chain working. This is a response to the megatrend of ‘The Rise of Asia’.

Global organizations operating locally in China need suppliers and partners that operate in the same locations. Experience in supply chain management, customer service in the customers own language, both in Finnish and Chinese has a high value. Quality control can also be benefitted for the global customers. These actions are preparing plans to the megatrend of ‘Localization’.

---

Ecologic and social factors are today a very sensitive and current topic in the industry. Customers procure more and more products that are proven to have good ethical values and are environmentally manufactured. The only way to prove the origin and the ways of manufacturing are quality standards, approvals and certificates that a company can acquire. Possession of these certificates has a positive impact in marketing and raises the motivation of the employees. More so when keeping in mind the operations in China where the circumstances of an employee in production facilities is quite unknown the customer ethics might sometimes be an obstacle for developing sales unless proved approvals can be shown.

## 10.2 Supplier performance management

Improving the whole supply chain management is a difficult task and needs the right team of employees within the organization to create a clear and understandable plan for the whole chain from the supplier, through the importer all the way to the end-customer. The team should maintain, observe and report all problems that occur during the supply chain and take actions in time to prevent worst case scenarios. The work of this team should also be presented to the top suppliers and explain what are the objectives and how they can be achieved together. The benefits of the process should also be presented to gain the interest and commitment of both parties. As the survey proved that centralization is a trend of the near future, the SKS Automaatio Oy's supply chain management must be at a high level to gain the trust and to lower the risks of customer decision in centralization.

Key performance indicators (KPI's) are the tools that should be used to monitor the suppliers and manufacturers that are on the top of the supply chain. The KPI's should mainly be used for the most remarkable and important supplier as they tend to be in a more crucial position to the end-customer. Avoiding problematic situations in beforehand will improve the reliability of deliveries and therefore support the development of trust and partnership with the customers. The KPI's must be provided from the ERP (SAP) automatically to be able to monitor them in real-time and to get accurate charts, tables and reports. Manual monitoring is too time-consuming and the possibility of incorrect results is too high. The KPI's should be monitored on at least a weekly basis, if not more often. The team should also use KRI's to measure the outcome of the KPI's on a monthly basis to see the results.



---

### 10.3 Suggestions for business strategy

The results from the survey and what the customer's intentions for future procurement strategies are and the fact that SKS Automaatio Oy is lacking a defined procurement process, it is possible to identify the needs and values that the customer requires and begin making plans for a more successful future in procurement strategy.

When searching and choosing new suppliers an analysis should be made to be sure if the products imported from the supplier has a place and are competitive in the market. Porter's Five Forces analysis tool is an excellent way to analyze all the external forces that are affecting the process. The product managers should execute this to every possible new supplier before any decisions or contracts are made for co-operation. In extent a market research should also be executed thoroughly to find out the need and attitude of the customers for such products, no assumptions are valid information.

The life cycle of a product or product group should be analyzed annually with a BCG matrix by the product managers to be able to make the decision if more development should be invested in product-marketing, technical education and sales. Otherwise the decision of ending the product from the portfolio should be made in order to save resources and time.

Scenario planning should be executed to be able to be prepared for alternative changes in the future. The scenario planning should be done before the SWOT analysis and it should be executed together with the chief managers and product managers. The scenarios will point out the possible current situation and lead the way in developing the strategies for the future.

The company's annual strategy should be analyzed and adjusted according to the current situations as the world's economy is in a state of rapid changes and competition is tough. A SWOT analysis should be made by the product managers for existing suppliers and the CEO together with other managers should do a SWOT that deals with the internal factors. To create or adjust the business strategy the TOWS analysis should be extended to the made SWOT analysis as an additional tool to help develop the strategy.

Supplier management should be improved to gain more stability in deliveries, price changes and supplier activities. A team with a leader for the procurement strategy from the employees within the organization should be assembled for maintaining KPI's and to monitor the suppliers. The assembled team is responsible for reporting weekly of defects in the

---

supply chain to the CEO and to the supplier directly. The chosen KPI's will be pointed out to the most important suppliers and the KPI's used are picked out according to which can be automatically monitored from the ERP and based on the structure of the suppliers supply chain. The effort of the team will gain improvement in SKS Automaatio Oy's supply chain as well as in the supplier's ability to handle problem situation in their processes.

#### 10.4 Author's learning diary

The learning in the Master's thesis project has been extremely rewarding. Even though it has been a long journey with hours and hours writing on the computer the amount of time spent on reading and investigating theories, trends, strategies and future foresights has opened new ways of thinking at business management and how to develop it. The author was all the way from the beginning strict with the deadlines he set and that is probably the driving force that kept the pace on and never let the project fall behind schedule. The most difficult part of the project was the creating the theories because of all the time spent on investigating, which was very time consuming and slowly advancing, that felt a bit frustrating from time to time.

If the author were to do something different when looking back at the whole project it would be the open answers in the survey. Going through the open answers took a couple of days just to count them and analyze them to get a common view of the results. Because the answers repeated themselves just into a few categories, the same could have been done with a multiple choice closed question and saved a lot of time and there would have been charts to get from the Digium survey.

All together the journey has brought an enormous amount of growth and knowledge for the author's career in the world of business.

---

## REFERENCES

- Booth, C. 2010. Strategic Procurement. London: Kogan Page Ltd.
- Brumer, I. 2012. A Brief History of Procurement: Golden Ages Past and to Come. Accessed 20.2.2013.  
[http://www.procurement-  
iu.com/blog/2012/2/a\\_brief\\_history\\_of\\_procurement\\_golden\\_ages\\_past\\_and\\_to\\_come](http://www.procurement-<br/>iu.com/blog/2012/2/a_brief_history_of_procurement_golden_ages_past_and_to_come)
- Business dictionary. 2012. Definition of Low cost component sourcing. Accessed 21.11.2012.  
<http://www.businessdictionary.com/definition/low-cost-country-sourcing-LCCS.html>
- Business dictionary. 2012. Definition of Quality management. Accessed 21.11.2012.  
<http://www.businessdictionary.com/definition/quality-management.html>
- Business dictionary. 2012. Definition of Supply Chain Management. Accessed 28.12.2012.  
<http://www.businessdictionary.com/definition/supply-chain-management-SCM.html>
- Cordon C, Hald K.S, Seifert R.W. 2012. Strategic Supply Chain Management. Oxon; Routledge.
- European Commission Memo. November 2012. Accessed 12.2.2013.  
[http://europa.eu/rapid/press-release\\_MEMO-12-932\\_en.htm](http://europa.eu/rapid/press-release_MEMO-12-932_en.htm)
- Finch T, 2013. Quantitative research considerations. Accessed 21.3.2013.  
[http://www.chanimal.com/html/quantitative\\_research.html](http://www.chanimal.com/html/quantitative_research.html)
- Gingery T, 2011. Advantages and disadvantages of Online Surveys. Accessed 26.3.2013.  
<http://survey.cvent.com/blog/market-research-design-tips-2/advantages-and-disadvantages-of-online-surveys>
- Hague Paul N, 2004. Market Research in Practice: A Guide to the Basics. London; Kogan Page Ltd.
- Hughes C, 2006. Quantitative and Qualitative Approaches. Accessed 19.3.2013.  
[http://www2.warwick.ac.uk/fac/soc/sociology/staff/academic\\_staff/chughes/hughesc\\_index/teachingresearchprocess/quantitativequalitative/quantitativequalitative/](http://www2.warwick.ac.uk/fac/soc/sociology/staff/academic_staff/chughes/hughesc_index/teachingresearchprocess/quantitativequalitative/quantitativequalitative/)

---

ISO. 2012. Quality management principles. Definition of quality management. Published 05/2012. Accessed 21.11.2012.

[http://www.iso.org/iso/qmp\\_2012.pdf](http://www.iso.org/iso/qmp_2012.pdf)

Introduction to quantitative research, 2004. Accessed 19.3.2013.

[http://www.sagepub.com/upm-data/9733\\_036046Ch1.pdf](http://www.sagepub.com/upm-data/9733_036046Ch1.pdf)

Kendrick, S. 2011. The TOWS Matrix: Putting a SWOT Analysis into Action.

<http://www.volunteerhub.com/blog/the-tows-matrix-putting-a-swot-analysis-into-action/>

Lead and Lag Indicators, 2010. Accessed 14.3.2013.

<http://www.slideshare.net/ianjseath/understanding-lead-and-lag-indicators>

Maailmantalouden ja Euroopan tulevaisuuden näkymiä ennen vuotta 2025. Jari Kaivo-oja, 2011. Accessed 12.2.2013.

<http://www.foresight.fi/2011/06/07/maailmantalouden-ja-euroopan-tulevaisuuden-nakymia-ennen-vuotta-2025/>

MBA Help – Strategy, 2013. Accessed 27.2.2013.

<http://www.ukessays.com/mba/strategy/scenario-planning.php>

Mietzner D., Reger G. 2005. Advantages and disadvantages of scenario approaches for strategic foresight. University of Potsdam, Germany.

<http://www.lampsacus.com/documents/strategicforesight.pdf>

Murray M., 2013. Strategic Supply Chain Management. Accessed 5.3.2013.

<http://logistics.about.com/od/strategicsupplychain/a/strategic.htm>

New orders in manufacturing decreased by 11.9 % year-on-year in december. Statistics Finland 8.2.2013. Accessed 8.2.2013. Figure 3.

[http://www.stat.fi/til/teul/2012/12/teul\\_2012\\_12\\_2013-02-08\\_tie\\_001\\_en.html](http://www.stat.fi/til/teul/2012/12/teul_2012_12_2013-02-08_tie_001_en.html)

Parmenter D, 2010. Key performance indicators: Developing, Implementing and using winning KPI's. New Jersey. Wiley & Sons.

Polczynski M, 2009. Scenario Planning – “Thinking the Un-thinkable”

<http://www.flca.net/images/ScenarioPlanning.pdf>

---

Porter's Five Forces – Assessing the Balance of Power in a Business Situation. Accessed 21.2.2013.

[http://www.mindtools.com/pages/article/newTMC\\_08.htm](http://www.mindtools.com/pages/article/newTMC_08.htm)

Porter's Five Forces Model, 2009. Accessed 25.2.2013.

<http://notesdesk.com/notes/strategy/porters-five-forces-model-porters-model/>

Rantala, O. 2012. EU:n ilmastopolitiikan talousvaikutukset vuoteen 2020.

<http://www.etla.fi/wp-content/uploads/ETLA-Raportit-Reports-2.pdf>

Renault, V. 2013. SWOT Analysis: Strengths, Weaknesses, Opportunities, and Threats

[http://ctb.ku.edu/en/tablecontents/sub\\_section\\_main\\_1049.aspx](http://ctb.ku.edu/en/tablecontents/sub_section_main_1049.aspx)

Rockford Consulting Group, Ltd. 1999. Strategic procurement. Accessed 21.11.2012.

<http://rockfordconsulting.com/strategic-procurement.htm>

Rouse M., 2010. Supply chain management (SCM). Accessed 5.3.2013.

<http://searchmanufacturingerp.techtarget.com/definition/supply-chain-management>

Scenario Planning, 2013. Accessed 27.2.2013.

<http://www.netmba.com/strategy/scenario/>

Seal, T. 2011. Future Gazing: Procurement Strategies for 2020.

[http://www.procurement-iu.com/blog/2011/2/future\\_gazing\\_procurement\\_strategies\\_for\\_2020](http://www.procurement-iu.com/blog/2011/2/future_gazing_procurement_strategies_for_2020)

Slaight, T. Kearney A. 1999. The Future of Purchasing and Supply: Strategic Sourcing. Accessed 20.2.2013.

<http://www.ism.ws/pubs/content.cfm?ItemNumber=9721>

Supplier Performance Management, 2013. Accessed 11.3.2013.

[http://www.metricstream.com/solutions/supplier\\_performance.htm](http://www.metricstream.com/solutions/supplier_performance.htm)

The Boston Matrix – Focusing effort to give the greatest returns. Accessed 25.2.2013.

<http://www.managementstudyguide.com/bcg-matrix.htm>

The procurement process. 2012. Accessed 21.11.2012.

---

<http://purchasinginsight.com/resources/the-procurement-process/>

The TOWS Matrix, 2013. Accessed 3.6.2013.  
[http://www.mindtools.com/pages/article/newSTR\\_89.htm](http://www.mindtools.com/pages/article/newSTR_89.htm)

Timmerman, K. 2005. The secrets of successful low-cost-country sourcing. Definition of Low cost component sourcing. Accessed 21.11.2012.  
[http://www.accenture-consulting.fi/SiteCollectionDocuments/PDF/low\\_cost.pdf](http://www.accenture-consulting.fi/SiteCollectionDocuments/PDF/low_cost.pdf)

TOWS Matrix, 2013. Accessed 21.2.2013.  
<http://www.zideate.com/definition/75/tows-matrix>

Ulkomaankauppa, 2012. Accessed 11.2.2013.  
[http://www.ek.fi/ek/fi/suhdanteet\\_ym/perustietoja\\_suomen\\_taloudesta/ulkomaankauppa.php](http://www.ek.fi/ek/fi/suhdanteet_ym/perustietoja_suomen_taloudesta/ulkomaankauppa.php)

Understanding procurement process. 2010. Accessed  
<http://www.scribd.com/doc/27036396/Understanding-Procurement-Process>

Vehkalahti, K. 2008. Kyselytutkimuksen mittarit ja menetelmät. Vammala: Tammi.

Wheaton G, 2009. Articles: Supplier Performance Management. Accessed 11.3.2013.  
<http://www.epiqtech.com/supplier-performance-management.htm>

Wheaton, G. 2009. Supplier performance management. Benefits of supplier performance management. Published 23.12.2009. Accessed 21.11.2012.  
<http://www.epiqtech.com/supplier-performance-management.html>

Strategic purchasing. 2013. Accessed 12.2.2013.  
[http://wiki.answers.com/Q/What\\_is\\_strategic\\_Procurement\\_or\\_strategic\\_Purchasing](http://wiki.answers.com/Q/What_is_strategic_Procurement_or_strategic_Purchasing)

---

## INVITATION LETTER TO DIGIUM ENTERPRISE CUSTOMER SURVEY

Dear partner,

My name is Mikael Saarnisto and I work for SKS Automaatio Oy as the sales representative for southern Finland. Besides my job I study in HAMK University of applied sciences. I am studying a Master's degree in business and administration and my major is business management and entrepreneurship. Regarding to my degree I will do my thesis for SKS Automaatio Oy and develop a procurement strategy and a supplier monitoring model.

To achieve the best possible results I will execute a customer survey and I you will help me and answer it. The survey is easy to answer and will only take about 5 minutes of your time.

Answering is completely anonymous and the results will be strictly used only for my thesis. At the end of the survey there is a link from which you can participate in a lottery where you can win a brand new Apple Ipad 2 wifi+3G –tablet. The contact information given to the lottery will not be used to any other than the lottery.

I want to thank you already in advance for your time.

Regards,  
Mikael Saarnisto

---

## DIGIUM ENTERPRISE CUSTOMER SURVEY

### 1. Suppliers

- a. What qualities do you appreciate in your current suppliers? Choose 3 qualities.
  - Brand awareness
  - Supplier activeness
  - Fast deliveries
  - Technical knowledge
  - Availability
  - Quality
  - Price
  - Reliability of delivery
  - Multidisciplinary
- b. Does your current suppliers fulfill your expectations?
  - Well
  - Pretty well
  - Pretty badly
  - Badly
- c. What qualities would you like to improve in your current suppliers? Choose 3 qualities.
  - Brand awareness
  - Supplier activeness
  - Fast deliveries
  - Technical knowledge
  - Availability
  - Quality
  - Price
  - Reliability of delivery
  - Multidisciplinary
- d. Why do you want your current suppliers to improve your choice of qualities? Does it bring more value to your business model and does it support your objectives? (Open answer)
- e. What are your future objectives in your procurement? (Open answer)

### 2. Component procurement

- a. Does the manufacturing country of the product affect you purchase decision?
  - Yes
  - No
- b. Explain why? (Open answer)
- c. Do you have experience in Competitive Cost (CC) -country components? eg. China, India.
  - Yes



- No
  - d. If you do have experience in CC-components, what were/are they like?  
(Open answer)
  - e. If you are going to do procurement from CC-countries, what kind of products/services are you looking for?
    - Single passive components
    - Single active components
    - Sub-assembly
    - System deliveries
    - Services
    - Something else, what? (Open answer)
3. Procurement strategy
- a. What is your organization's future procurement strategy? Choose your opinion from the following to match the statements:  
Completely disagree (value=1), Slightly disagree (value=2), Neither agree or disagree (value=3), Slightly agree (value=4), Completely agree (value=5)
    - We are planning on outsourcing our procurement
    - We will centralize our procurement and reduce suppliers
    - We will strengthen our partnerships
    - We will focus on components manufactured in Europe
    - We will focus primarily on low-cost components
    - Finnish importers brings value to our company
    - Finnish warehouses brings value to our company
    - We value high quality in components

#### Background information

- 4. Employees and turnover of your organization?
  - a. Turnover (<1m€, 1-5m€, 5-10m€, 10-20m€, 20-50m€, 50-100m€, 100<m€)
  - b. Employees (<10, 10-50, 50-100, 100-250, 250-500, 500-1000, 1000<)
- 5. Occupation? (Open answer)
- 6. Are you responsible for procurement in your organization?
  - Yes
  - No
- 7. If you want to participate in the lottery of an Apple Ipad, please leave your contact information. (Open answer)